Imasco Annual Report 1994

Cover

For consumer-driven companies like Imasco, investing in employee learning is akin to research and development. New knowledge generates innovative products and improved customer service. Both enable our companies to outperform the competition and are essential to industry leadership.

"Continuous learning at Imasco" is the theme of this year's report, chosen to underscore the importance of education and training in all our companies.

The cover photo was taken during the 1994 Imasco Senior Management Development Program. Each year, high-potential managers, selected by their CEOs to attend this three-week program, interact with senior operating and corporate leaders. They examine business challenges and participate in seminars moderated by professors from leading Canadian and U.S. business schools.

Denise Perrault, Vice-President, Human Resources: "Learning opportunities not only enhance the capabilities of our companies, but they also promote the personal growth of individuals in becoming lifelong learners. Both dimensions are profoundly valued at Imasco."

Corporate Profile

Imasco Limited is a leading consumer products and services growth company with operations in Canada and the United States.

Imasco's wholly owned operations include Imperial Tobacco, Hardee's Food Systems, Shoppers Drug Mart/Pharmaprix, Genstar Development Company, and The UCS Group.

Imasco also owns approximately 98% of the common shares of CT Financial Services, the parent of the Canada Trust group of companies in Canada and of First Federal Savings and Loan Association of Rochester in the United States.

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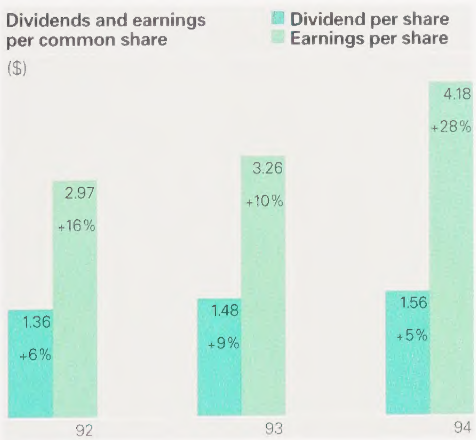
This report includes selected information on CT Financial Services Inc., a public reporting company with shares trading on the Toronto and Montréal stock exchanges. CT Financial Services produces an annual report, and a copy can be obtained by contacting the company directly.

Imasco Limited
Financial Highlights
In millions of dollars, except as noted

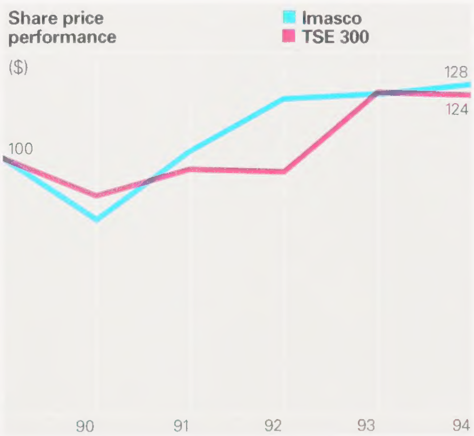
	1994	1993	1992	1993-94 % change	1992-93 % change
Operating results					
System sales	16,426	16,453	16,210	–	2
Revenues, net of tobacco taxes and duties	8,134	7,972	7,941	2	–
Net earnings[1]	506	409	380	24	7
Return on common equity	16.1%	13.8%	13.7%		
Earnings from operations					
Imperial Tobacco	592	462	432	28	7
CT Financial Services	333	232	252	44	(8)
Hardee's Food Systems	133	86	77	56	10
Shoppers Drug Mart	102	100	95	2	5
Genstar Development Company	27	33	34	(19)	(3)
The UCS Group[2]	(16)	(6)	(4)	–	–
	1,171	907	886	29	2
Financial condition					
Cash from operating activities	930	812	845	15	(4)
Capital expenditures	280	296	296	(5)	–
Shareholders' equity	3,337	3,100	3,058	8	1
Debt to total capital ratio	36.6%	37.9%	39.0%		

1 Net earnings in 1993 were $424 million before an after-tax loss of $15 million on the sale of 84 restaurants in Philadelphia.

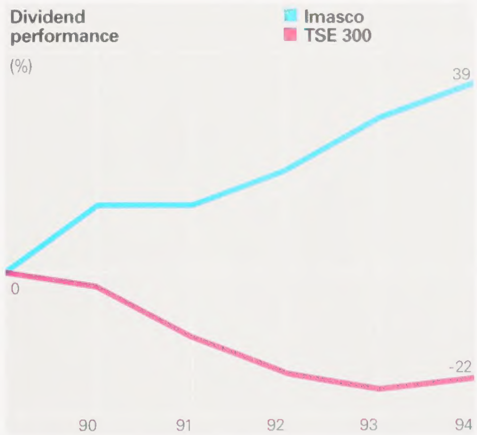
2 1994 includes a restructuring charge of $12 million.



Strong growth continued in 1994 with earnings per share up 28%. The indicated annual dividend for 1995 is $1.92 per share, an increase of 23%.



With dividends reinvested, a 1989 investment of $100 in Imasco common shares has outperformed the TSE 300 and would have grown to $128 by the end of 1994.



Imasco's common share dividend has risen 39% over the past five years, compared with a 22% decline for the TSE 300.

Overview

Imasco has built value for shareholders by excelling in retail distribution businesses while continuing to develop Imperial Tobacco. The following is an overview of the activities and aims of the Imasco companies.

Imperial Tobacco manufactures a full range of quality tobacco products and is the industry leader in Canada. Trademarks include *Player's* and *du Maurier*, the two largest-selling domestic brand families.

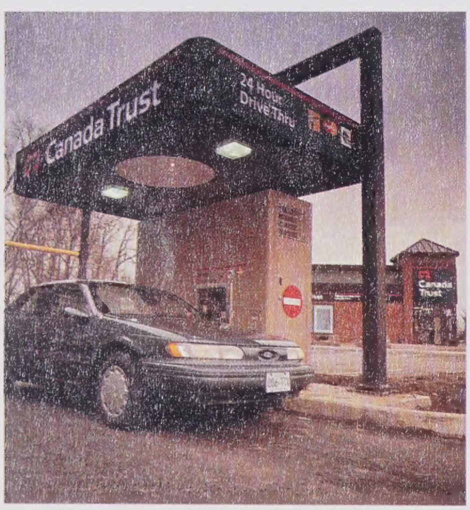
Imperial aims to compete successfully in any market it enters by satisfying smokers' needs better than its competitors – and to do this in a manner that is profitable and sustainable and that increases the value of the company.

Hardee's Food Systems operates the fourth largest quick-service restaurant company in the United States. Of its 4,006 restaurants, 490 bear the Roy Rogers trademark.

Hardee's goal is to *Be the best restaurant in the neighborhood* by surpassing the competition at all three mealtimes in taste, choice, and freshness.

Genstar Development Company creates master-planned communities from raw land and sells serviced lots and parcels to home builders in selected North American markets.

Genstar's mission is to be the leader in the residential land development industry, whether measured on fairness, integrity, professionalism, or financial achievement.



CT Financial Services is a market leader in personal banking and investment management services, with assets under administration of $182 billion. Operations include Canada Trust and First Federal Savings and Loan Association of Rochester.

By *Thinking like a customer*, CT Financial is striving to be the best personal financial services company in Canada, to generate profitable growth in the United States, and to exploit cross-border synergies.

Shoppers Drug Mart/Pharmaprix is Canada's leading drugstore group, with 689 locations coast to coast. Pharmacy and over-the-counter medications are its core businesses, and the company is the nation's largest cosmetics retailer and leading seller of health and beauty aids.

Shoppers' positioning statement, *Everything you want in a drugstore*, rests upon five fundamental customer benefits: service, selection, savings, convenience, and trust.

The UCS Group is a leading, small-space, specialty retailer with 140 confectionery, tobacco, and news stores located primarily in malls and office complexes and 110 travel-related specialty shops in resort areas, hotels, and airports across Canada.

Imasco's mission is to build value for shareholders. To be successful, each year we must improve our financial results significantly while devoting sufficient management time and resources to enhancing the longer-term competitiveness of our businesses. In 1994 we succeeded on both fronts.

Working for simultaneous short-term results and long-term development is a challenging endeavour in today's environment, and our employees can take great satisfaction in the achievements of 1994. Speaking for the Board of Directors and the shareholders of Imasco, we salute the nearly 200,000 men and women who make up the Imasco family and thank them for the commitment and ingenuity that resulted in an outstanding year.

Financial highlights

We met or exceeded our financial objectives in 1994. Earnings per common share increased by 28% to $4.18, following increases of 10% in 1993 and 16% in 1992. Our objective is a 15% annual growth in earnings per share. Return on average common shareholders' equity was 16.1%, up from 13.8% in 1993 and 13.7% in 1992. Our objective is to exceed 15%.

Again in 1994, each of our four largest companies made a positive contribution to cash flow. Net cash available after capital expenditures and dividends was $310 million in 1994, compared with $324 million in 1993 and $201 million in 1992. Our objective of generating net cash equal to at least 50% of dividends was comfortably exceeded in all three years.

The strong cash flow has allowed us to step up our repurchase of common shares. We acquired just under 2.5 million shares in 1994, for an aggregate consideration of $93 million. When combined with the $185 million paid out in dividends, a record $278 million was returned to common shareholders during the year. This was equal to 56% of the 1994 earnings attributable to common shares.

In addition to returning cash to shareholders, we also strengthened Imasco's financial position and continued to make substantial capital investments that increased the capacity of our businesses to generate sustainable growth. By year-end, our ratio of long-term debt to total capital stood at 36.6%, close to our objective of 35%. Capital expenditures were primarily directed at improving productivity and customer service, cornerstones of Imasco's success. These expenditures totalled $280 million in 1994, compared with $296 million in both 1993 and 1992.

We believe that long-term value can only be created for shareholders if the returns from our businesses and new investments exceed the estimated costs of capital. The concepts of economic profit and economic value added provide a management framework for measuring performance from a value-generating perspective. Economic profit is defined as net operating profit after tax and after deducting the calculated cost of capital on average operating capital. Economic value added represents the growth in economic profit from year to year. Imasco achieved economic profit of $154 million in 1994 and $56 million in 1993, while economic value added amounted to $98 million in 1994 and $65 million in 1993.

One disappointment in 1994 was the market valuation of our common shares, which clearly did not reflect Imasco's financial performance and prospects. However, our shares did out-perform the market as a whole. The total return on Imasco's common shares in the year was 3.4% compared to a decline of 0.2% for the TSE 300. The comparable figures for the three- and five-year periods ended December 31, 1994 are 7.0% and 5.1% for Imasco, against 9.3% and 4.5% for the TSE 300.

Operating highlights

The year's financial performance resulted from a combination of top line growth and a continuing focus on productivity. Under the Imasco system, leaders of the operating companies have both the responsibility and the managerial freedom to reach goals that have been set in collaboration with the corporate centre. In 1994 they did an outstanding job.

Imperial Tobacco's 28% increase in earnings from operations reflected strong revenue growth and a return to a more traditional market mix of manufactured cigarettes and fine-cut tobacco products. The increase of 4.8 share points, to 64.3% of the total cigarette market, resulted from a chain of events set off by tobacco tax reductions made in February 1994 by the federal gov-

Performance against objectives

ernment and several provinces. Prior to that, Imperial's sales had been adversely affected by the growing illicit market. This was particularly true between April 1992 and March 1993, when the company voluntarily restrained exports, giving up substantial volume and tens of millions of dollars in earnings in support of the government's attempts to control smuggling.

The tax rollbacks do not appear to have significantly impacted tobacco consumption. They did effectively eliminate the contraband market in Eastern Canada. Smokers returned to domestic, legal channels, and many who had switched to cheaper, fine-cut tobacco returned to higher-margin, manufactured cigarettes. In the normalized marketplace, Imperial's strong trademarks and superior sales organization combined to restore market share to a level that would have prevailed, had smuggling not occurred.

At CT Financial Services, the 35% increase in net earnings attributed to common shares resulted from Canada Trust's declining provisions for investment losses and the company's continuing focus on operating costs and market share. First Federal Savings and Loan Association of Rochester also enjoyed strong results and continued to improve its asset quality. Overall, net non-performing investments represented 0.28% of total investments at December 31, 1994, which compares very favourably with the 1.22% average for the six largest Schedule I chartered banks at their October 31, 1994 year-end.

Canada Trust expanded its Canadian retail distribution system again in 1994, adding 21 branches and 217 automated banking machines, including 50 new drive-thru locations. A second telephone banking call centre was opened for *EasyLine*, and Mandarin and Cantonese now supplement French and English as languages in which operator service is available 24 hours a day, seven days a week. This expansion was achieved with significantly fewer employees in the retail system as a result of re-engineering efforts.

Hardee's Food Systems faced fierce competition again in 1994. The year got off to a slow start, particularly in the Northeast, where severe weather conditions were a factor. However, with the introduction of value offerings at Hardee's and new menu items at Roy Rogers, sales showed signs of recovery by the fourth quarter. Earnings from operations were up 56% in 1994. Principal factors contributing to the increase were the relative strength of the US dollar, lower occupancy costs that resulted from the unwinding of a 1988 sale and leaseback transaction involving 279 Hardee's restaurants, and the loss taken in 1993 on the sale of 84 Roy Rogers restaurants in Philadelphia. On a fully comparable basis, US dollar earnings from operations were up 2%.

Hardee's was pleased to welcome Heartland Food Systems as a licensee in 1994. This Ohio-based company selected Hardee's as the new trademark for its 52 Rax restaurants, which are expected to be converted starting in 1995. Heartland also acquired 61 restaurants from Hardee's and 104 restaurants from a licensee, making it the third-largest operator in the system and well-positioned to develop Hardee's in Ohio.

Shoppers Drug Mart/Pharmaprix increased its earnings from operations in 1994 by 2%, a commendable performance in a difficult retail environment. Comparable store sales, excluding tobacco, increased by 3.4% (tobacco distorts comparisons because of the substantial decrease in retail prices after the tax rollback). Margin erosion was minimized by growing sales of *Life Brand* and *Rialto* private label products, strong sales of over-the-counter medications and cosmetics, and increased prescription counts bolstered by the *HealthWatch Reminder* program.

Earnings from operations at Genstar Development declined to $27 million from $33 million in 1993. This decline was expected and is partly due to a lack of land acquisitions in the late 1980s. The company is currently replenishing its inventory, and attractive new projects are expected to result in future earnings growth. Some of the returns have already begun to flow. In 1994, there was a modest revenue contribution from sales in Minneapolis and from Genstar's new project in Portland, Oregon.

To address declining profitability and to adjust for the loss of the Woolco tobacco franchise, The UCS Group underwent significant restructuring in 1994. A pre-tax charge of $12 million was recorded in the second quarter to provide for the related costs. UCS is now leaner and is organized around two principal divisions, convenience and travel. The continuing business operates 250 stores, down from 476 at the beginning of the year. A positive contribution to earnings from operations was recorded in the second half of the year.

Building for sustained success

It was also a year of substantial progress toward Imasco's second goal of enhancing the long-term competitiveness of our businesses. These efforts are spearheaded by our operating company leaders and supported by the corporate centre.

The most visible output from this activity in 1994 was the announcement by Shoppers Drug Mart/Pharmaprix of Vision 97, a three-year program that will improve efficiency in product acquisition and operations through the reconfiguration of buying, distribution, accounting, and regional office activities of Shoppers and its associates. This major undertaking will assure that the company is at least at parity with its competitors on these dimensions, and it will strengthen Shoppers' existing competitive advantages in marketing, merchandising, and customer service. While Vision 97 is technology-driven, its focus is on customers. Ultimate benefits will include lower retail prices and even better customer service.

Imperial Tobacco's long-term focus in 1994 was on productivity initiatives that are being implemented over several years. Canada Trust completed a multi-year study of its customer service hardware and software. As a result, every branch will be equipped with a new information system that will enhance customer service and decrease training time for staff. At Hardee's, extensive consumer research generated new restaurant-enhancement

Brian Levitt, President and Chief Operating Officer, and Purdy Crawford, Chairman and Chief Executive Officer.

ideas and positioning alternatives that will be thoroughly test marketed in 1995.

All these initiatives added to costs in 1994, but their benefits will be realized in later years, commencing in 1995. Strategic initiatives are more fully described in the company reports that follow.

Continuous learning

Corporate growth and development ultimately rest upon the growth and development of individuals and workplace teams. Both are nurtured by continuous learning, which is the theme of this year's annual report. Continuous learning at Imasco is a process whereby changes or anticipated changes in the marketplace are looked upon as opportunities for our tomorrows. Capitalizing on these opportunities requires challenging the assumptions upon which Imasco's past successes have been based. It entails knowing the characteristics of our customers and our potential customers. And it means taking calculated risks that will generate additional shareholder value. All these processes require an open-mindedness to change and a willingness to learn.

Learning at Imasco takes many forms. We keep abreast of current business thinking by reading the literature. We benchmark the best practices of others. And our multi-business structure and common consumer focus afford rich opportunities to mine best practices among our own companies. A key role of the business development group at the corporate centre is to identify such practices in each of our businesses and share them widely.

Employees throughout Imasco are encouraged to expand their knowledge, skills, and ideas through systematic education and training activities within their companies. Across the businesses, learning is facilitated through the Senior Management Development Program (SMDP) under the leadership of Imasco's human resources group. Featured on the front cover of this report, the SMDP is creating a talented new breed of Imasco managers conversant with all our companies, their challenges and opportunities. Other innovative ways in which Imasco companies are developing their people through education and training are illustrated in each company's report.

Tobacco regulation

In recent years, the tone of public debate surrounding the regulation and taxation of tobacco products has become increasingly emotional, frequently at the expense of reason. This flawed process has yielded flawed public policy. The rapid rise in cigarette taxes from 1985 to 1992 transformed an intended health measure into a vehicle for tax protest. The elimination of tobacco from pharmacies in Ontario has removed sales of cigarettes from the supervision of probably the most responsible retailers of tobacco products. And currently under study in Ottawa is a proposal that would confiscate valuable property of tobacco manufacturers – their trademarks – without compensation, through plain packaging. This proposal contravenes Canada's international trade obligations as well as accepted notions of fairness relative to private property. Plain packaging would also facilitate the trade in counterfeit and smuggled tobacco products.

There is no compelling evidence that any of these extreme policies has accelerated the decline in tobacco use that has occurred in Canada. Rather, the dominant influences on tobacco use are social and demographic trends and consumers' health concerns. It is these factors that have resulted in consumption and prevalence levels in Canada and the United States moving in virtual lock step for the last 20 years, even though the United States has avoided extremes in tobacco regulation and taxation. The more stringent Canadian policies have had unintended adverse consequences – the development of the contraband market being the most notorious and predictable, as a similar problem occurred in the 1950s. Reasoned debate such as that accorded other public policy matters would have avoided these unintended results without jeopardizing progress in achieving government objectives.

Imasco does not oppose reasonable regulations governing the sale and use of tobacco products, such as those relating to minors. We are concerned, however, about misguided regulatory policies that have little potential to reduce smoking, but which impact in a material way the rights of citizens and the livelihood and property of the thousands of Canadians involved in growing, manufacturing, or selling tobacco and tobacco products.

In the past, we have supported the exercise of self-restraint in pursuit of rational public policy – as when Imperial Tobacco voluntarily restrained exports during the smuggling crisis. We remain ready to engage in constructive dialogue with government on these important issues.

Board of Directors

Two Board members, Jean-Louis Mercier and Jack Laughery, will step down in May. Jean-Louis had an outstanding 32-year career with Imperial Tobacco, retiring as its Chairman and Chief Executive Officer in 1993. He has served on our Board since 1979. Jack has been a director since 1981, when Imasco completed the acquisition of Hardee's. His distinguished career encompassed 28 years with Hardee's and predecessor companies. Jack retired as Chief Executive Officer of Hardee's in 1990, but stayed on as non-executive Chairman until March of last year. On behalf of shareholders, we thank Jean-Louis and Jack for their leadership and valuable contributions, and we wish them every success in the future.

Corporate governance was a much-debated topic in Canada again in 1994. One matter frequently commented upon has been share ownership by directors. For a number of years, our non-executive directors have been receiving a portion of their annual retainers in Imasco common shares. This portion currently stands at 350 shares.

Management succession

On February 2, 1995, the Board of Directors approved succession plans for Imasco's executive leadership. Brian Levitt, President and Chief Operating Officer, will assume Chief Executive Officer responsibilities from Purdy Crawford. Mr. Crawford will remain as Chairman, and his continuing duties will include leading the Board and its Executive Committee and providing counsel to Mr. Levitt. He will also remain Chairman of CT Financial Services.

These changes will take effect following the annual meeting in May, and we look forward to continuing to serve shareholders in our new roles.

Outlook

Imasco enters 1995 with a strong balance sheet and good earnings and cash flow momentum. Equally important, our businesses are stronger competitors now than they were a year ago. Accordingly, we believe that 1995 will be another year of good earnings growth and cash flow generation, combined with further progress in enhancing our longer-term competitiveness.

Reflecting this confidence, the Board of Directors has increased the quarterly dividend by 23% to $0.48 per common share and allocated up to $100 million to the purchase of common shares in 1995 under our normal course issuer bid program. The Board also recommended that the common shares be split on a two-for-one basis, and this will be submitted for approval at the Annual and Special Meeting of Shareholders on May 2, 1995.

Purdy Crawford
Chairman and
Chief Executive Officer

Brian Levitt
President and
Chief Operating Officer

February 2, 1995

Imasco invited journalist Claude Beauchamp to interview outgoing CEO Purdy Crawford. Mr. Beauchamp is a well-known professional at RDI, the all-news television network of Radio-Canada (as CBC is known in Québec). Prior to that, he was president and publisher of TransContinental Publications Inc., producer of several periodicals including the weekly business newspaper Les Affaires.

The interview session was held in Imasco's Montréal corporate centre on the bright February day in which all Canada awaited Paul Martin's late-afternoon presentation of the federal budget. Topics ranged from Canada's business environment, in general, to Imasco's growth and development, in particular, to Mr. Crawford's personal satisfactions and future goals.

A note from Claude Beauchamp

The Imasco that Purdy Crawford will turn over to Brian Levitt on May 2 is dramatically different from the one he took charge of ten years ago. To illustrate with only one vital statistic, Imasco's net earnings in 1994 were more than half a billion dollars, nearly double what they were when he became President in 1985.

From the start, Purdy Crawford had a very clear vision of his mandate: first, to complete the diversification of Imasco through a major acquisition; then to re-orient corporate priorities toward the effective management of the businesses. Under his leadership, Imasco created a corporate culture founded upon this principal axis: respond to the needs of customers, but also stay out in front of change. It is no mean feat to establish a common culture in a company that operates six different business units across North America!

But in meeting Mr. Crawford, it was not past achievements that interested me. How would this man of extraordinary experience in business and in Canadian life see the future? What would he foresee for Imasco, for the Canadian economy, for our society, and for himself?

It seemed to me that these are the issues that employees, shareholders, and others associated with Imasco would like to hear Mr. Crawford address at this stage of his career. For, as quickly became apparent, Purdy Crawford's career is far from over. This leader, so admired during his decade at Imasco, is merely setting off in a new direction.

Beauchamp: Is a new diversification thrust called for at Imasco, such as the one you undertook when you joined the company?

Crawford: In the longer term, perhaps, but over the next four or five years, I would say no. Excellence in operations should remain the order of the day. There is certainly no shortage of growth opportunities in the businesses we have.

On the other hand, with our balance sheet strength, we could handle an acquisition if a particularly attractive one were to come along. For now, though, I think we should concentrate on what we have. Our businesses are very strong, and by sharing among themselves the things that each does best, Imasco's overall performance will continue to improve.

Beauchamp: Has Imasco's management system changed, along with the changing priorities?

Crawford: Yes, very much so. The search for excellence in our operating companies started after the acquisition of Canada Trust and really gained momentum when Brian Levitt joined us four years ago. It has been a passion with him to encourage the operating leaders to take a broader look at their businesses and at what's happening in the marketplace and to make the changes necessary so that these businesses will be the growth companies of the tomorrows as well as the past.

And several years ago, our CFO, Ray Guyatt, introduced the concepts of economic profit and economic value added. These systems of measurement and control have greatly strengthened our decision-making process. They are a constant reminder that capital is precious.

Beauchamp: Won't Imasco's future growth vary from operating company to operating company? What will Imasco look like in ten years time?

Crawford: Tobacco's share of our total operating earnings will ultimately start to decline. But Imperial Tobacco will still be an incredibly successful growth company. I would imagine that, ten years out, Imperial could represent about 25% of our earnings, compared with 40-50% in recent years.

Right now, I would say that Imasco's best long-term opportunities are in the financial services sector, particularly in the United States. This suggests that Canada Trust and First Federal will spearhead our growth over the next few years. But Imasco companies are all leaders, and all are positioned to take advantage of consolidation opportunities.

Beauchamp: How do you respond to those who object to the tobacco industry?

Crawford: A lot of people don't like tobacco, and it is their right to feel that way. But we have a business to run. Imperial Tobacco produces a product that is legal

and very much in demand. We manage the company to the best of our ability in a very strict ethical and legal way. As we see it, that is our obligation to shareholders, employees, and society at large. If there is to be prohibition of tobacco, that is a policy issue for governments to decide, not tobacco companies.

Beauchamp: Imasco does not operate in a vacuum. Thinking about the external environment over the next ten years, if you had to point to one challenge among the many, what would it be?

Crawford: The challenge of competition. Consumers are becoming more and more sophisticated, knowledgeable, and demanding. And, on the other side, the skill levels and capabilities within companies are constantly rising. Information systems add to that, lowering costs and increasing the effectiveness of marketing – the whole knowledge-based economy.

We are also moving toward a borderless economy that permits the best companies to compete everywhere. Canada Trust and First Federal are good examples. Canada Trust's strength is in southwestern Ontario, and First Federal's is in upstate New York. And they're working on a North American financial services strategy. Over time, I can see us functioning in a borderless world, from the business point of view.

Beauchamp: You are describing a pretty demanding future for employees and leaders at Imasco.

Crawford: Yes. And that is why developing a culture of continuous learning is so important. A company cannot progress without achieving good annual financial results. But in tomorrow's world, doing well will require a culture that thrives on change. You have to constantly challenge your assumptions, especially when things are going well, and you have to focus on learning and training inside the company. That is the thinking behind our Senior Management Development Program. It involves a hand-picked group of managers from each of our companies, who come together for three weeks of learning. It has been a very positive thing in terms of development of people, and also getting them to understand all of Imasco, not just the business units they come from. They'll be among our leaders of tomorrow.

A related idea is the movement of people around our companies, as part of their development. I think this will be facilitated by the Senior Management Development Program. People will have a greater understanding of Imasco and all the companies. And there will be in the tomorrows an even greater emphasis on the training and development of people.

These kinds of programs already exist at Imasco, and I am sure Brian Levitt will be putting more emphasis on that over time. It's so important that people become broad-gauged and see the big picture.

Beauchamp: You have many children – six, I believe. How will they fit into the corporations of tomorrow?

Crawford: I've been blessed with a wonderful family – my wife, Bea, an outstanding son, and five daughters. My daughters have had a great influence on my life – one is still in university, and four are now in business. They've helped educate me about some of the issues that women face. Undoubtedly, there have been attitudinal barriers for women in the business world, and these have simply got to be moved out of the way. I believe it is only a matter of time.

I'm proud to say that Imasco has been working very hard to involve women more in our business organizations. Besides making good sense from a talent point of view, when you think about it, female customers represent over 50% of our market – in the case of Shoppers Drug Mart, close to 70%. It is absolutely vital for us to have women involved in making our decisions.

Beauchamp: How do you view the future of the Canadian economy?

Crawford: I am optimistic, very optimistic. Canada's economy is strong and diversified. The severity of the last recession forced us to become more productive than we have ever been before. Only five years ago, most people thought that our steel industry would not survive. Today, Canadian steel companies are very competitive in world markets. The same can be said of our automotive industry, and, I am sure, many others. The North American Free Trade Agreement has been positive for Canada and will be even more so in the future.

As long as we can get our financial house in order, I think Canada can be among the strongest countries, economically, in the world. And, if we produce the wealth that we're capable of, we can continue to

be the greatest caring society in the world, because we'll have the wealth to redistribute. The reality is that we've been spending more than we can afford for 15 or 20 years. We're all going to have to give a little, starting tonight, with the budget!

But what you'll probably find tomorrow is every special interest group in the country beating Paul Martin over the head... whether they're business special interest groups or whatever. And that will mean he got it right!

Beauchamp: Apart from its economic potential, how do you see Canadian society? What kind of country will your children and grandchildren grow up in?

Crawford: I think it will be a pretty good world. We're such a civilized society. Here we are, facing the possibility that a major part of our country could separate. And it would be unthinkable that we would have strife about it, strife in a fighting or violent sense. And that's really a great credit to our society.

Even if it is not always realized, French-speaking Quebeckers have won a glorious, peaceful revolution. A revolution that was totally justified by the economic status they suffered for so long. It has been a great achievement, and it is very good for the whole country.

I expect Canada to flourish because it seems to me that people are regaining their sense of responsibility and self-reliance. I think over the last generation, the tendency to rely too much on the state has been negative. I hope we're starting to move away from that. Moncton, New Brunswick, is a good illustration. For years, Canadian National had railway repair shops there, and all of Moncton's energy was devoted to keeping those shops from being shut. Today, the leaders of Moncton and the Premier of New Brunswick say the greatest thing that ever happened was those shops shutting down. They became forward-looking, and they began finding new industries. It's a great success story.

Beauchamp: People helping themselves: that's a principle Imasco seems to believe in. The company is well-known for its work in the community. I'm thinking in particular of the Job Creation project a few years ago.

Crawford: That is one of the great things about this company – its work in the community. I can't take credit for that. It was my predecessor, Paul Paré, who gave the leadership to create that part of Imasco's culture. We support all sorts of excellent projects right across the country, and occasionally we get much more deeply involved in specific activities.

The Job Creation Initiative you refer to is one example of that. We invested about seven and a half million dollars in a program here in Montréal that was directed primarily to younger people who had business ideas or small businesses. We helped get them going, and the survival rate has been very high.

We are currently working on another major project with Centraide called 1,2,3 GO! It is directed at parents and very young kids, under three, who need help. As part of my involvement with the Conference Board, I became Co-chair of the National Council on Education. That work convinced me, and the research evidence is quite clear, that if you want to have a major impact on people and education, you have to start very young.

I grew up in rural Nova Scotia and you can just see it. The families where the children tended to do well, whether they were rich or poor, were the ones where the children read and had books and were nurtured. The beauty of the 1,2,3 GO! project is that the neighbourhoods themselves determine what is missing, so that what is actually provided in each community will depend on the infrastructure presently there. It's the right approach, and we are very committed.

Beauchamp: Purdy Crawford is only 63 years old and has lots of energy. I am sure he will not disappear from the Canadian landscape or from the business world.

Crawford: When I stopped practising law to head up Imasco, I believed I was at the height of my legal career. Now, I am getting ready to leave the day-to-day management of Imasco and I feel I am at the peak of my business career. I think being chairman of the boards of Imasco and CT Financial Services and advisor to Brian Levitt will take up about a quarter of my time. I expect to keep and maybe increase my involvement on boards of directors of other companies. And, there will be more time for my family and for the volunteer activities that are very dear to me.

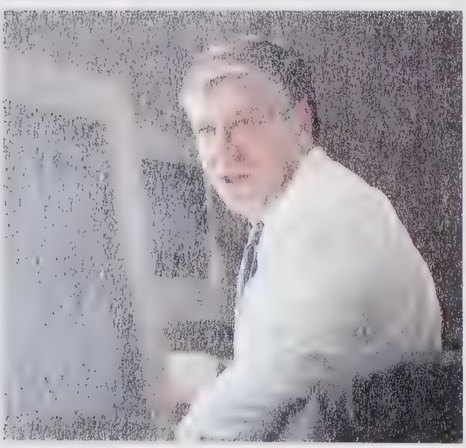
I'll be around.

Highlights of operations

Millions of dollars, except as noted				Years ended December 31	
	1994	1993	1992	1991	1990
Revenues	**2,586**	2,860	3,050	2,953	2,708
Revenues, net of tobacco taxes and duties	**1,335**	1,151	1,083	1,041	963
Earnings from operations	**592**	462	432	397	367
Market share–manufactured cigarettes (domestic and export) (%)	**64.3**	59.5	59.6	61.3	59.4
Additions to capital assets	**31**	28	36	22	23

Imperial Tobacco manufactures a full range of quality tobacco products and is the industry leader in Canada. Trademarks include *Player's* and *du Maurier*, the two largest selling domestic brand families.

Renowned for its consumer focus, Imperial Tobacco garnered a 64.3% share of the Canadian manufactured cigarette market in 1994.



André Chénard, Manager, Human Resource Development: "Developing our people is really not a cost, it's an investment. You can stop doing development right now and save money, but it will haunt you in two to three years, because people won't be prepared for the tasks they will have to do or the decisions they'll have to make."

An exceptional year

Growth continued for Imperial Tobacco in 1994, with earnings for the year up an impressive 28%. Imperial's share of manufactured cigarette shipments (domestic and export) increased by 4.8 share points, reaching an all-time high of 64.3% and causing our cigarette production volumes to increase significantly. Our sales mix also shifted, with decreased sales of fine-cut tobacco for roll-your-own cigarettes more than offset by increased sales of higher margin manufactured cigarettes.

Order returns to the market

In February 1994, the federal and several provincial governments announced significant tax rollbacks for tobacco products. It was a retreat from misguided policies that were designed to discourage smoking, but which instead created a huge contraband cigarette market. Prices had soared due to over-taxation, and many consumers turned from domestic, duty-paid cigarettes and fine-cut tobacco to smuggled products. As expected, the lower taxes all but extinguished smuggling activity in Eastern Canada. The return to an orderly market favoured Imperial Tobacco, for our strengths have long been our premier trademarks and superior sales and distribution capabilities.

Despite alarmist predictions to the contrary, the tobacco tax rollbacks appear to have had no significant impact on total consumption. Imperial's market share has now reverted to the level it would have been, were it not for smuggling and for the company's voluntary restraint of exports for an eleven-month period in support of government anti-smuggling efforts.

Having given up on one tax, the government imposed a three-year surtax on tobacco manufacturing profits. As a result, the company provided $39 million for surtaxes to the federal and Québec governments in 1994. At the federal level alone, Imperial's 1994 income taxes, surtaxes, excise taxes, and excise duties amounted to approximately $1.5 billion.

The regulatory environment

It was another active year on the regulatory front, with various provinces and the federal government passing laws to further restrict the sale and use of tobacco products. In September, the industry introduced new government-mandated warning labels on packages of tobacco products, and plain packaging for cigarettes is now being considered by the federal government.

We consider the concept of plain packaging to be misguided, as there is no credible evidence that it will either induce current smokers to quit or discourage non-smokers from starting. Its adoption would confiscate valuable property of tobacco manufacturers–their trademarks–without compensation. Not only would this violate accepted notions of fairness relative to private property, it would contravene Canada's international trade obligations. The proposal could be damaging in other ways, because it threatens many Canadian jobs and would facilitate trade in smuggled and counterfeit tobacco products.

The federal Minister of Health has indicated that the government will not make a final decision on plain packaging until the Supreme Court has decided on the industry's right to advertise (stemming from a constitutional challenge to the Tobacco

With implementation of Triple I (Integrated Information at Imperial) slated for January 1996, the accent at Imperial Tobacco is on designing training for the 900-plus individuals who will use the enterprise-wide information system. Because all business areas will be linked within one computer environment, virtually all work processes will change. Benefits will include dramatic improvements in the order entry and inventory management systems, greater productivity, and better utilization of manpower, materials, and machines

Over 50 courses will introduce Triple I to employees next fall. Instruction will combine classroom training and personalized tutorials A key strategy of the training design has been to involve representatives of the operating divisions, all of whom will use the technology, in creating course materials. These individuals have spent the past year working on interdivisional teams to improve business processes. Several are shown at left, developing the system prototype with consultant Mike Alkier. Because of their in-depth understanding of Triple I, they will also instruct trainees and monitor progress

Products Control Act). The Court heard arguments in November, and a decision is expected during 1995. Apart from its impact on the plain packaging debate, a favourable judgment on advertising by the Supreme Court would be an important affirmation of the right to commercial free speech in Canada.

Such a ruling, however, would not usher in a return to unrestricted tobacco advertising. Imperial Tobacco recognizes that many people believe tobacco advertising should be limited. Indeed, the Canadian tobacco industry voluntarily restricted advertising from 1972 until the Tobacco Products Control Act came into force. Furthermore, we encourage retailers to abide by federal and provincial legislation prohibiting the sale of tobacco to minors and provide point-of-sale signage to help them enforce the law. Ultimately, we believe the decision to smoke is one that informed adults should make.

Managing in a changing industry

Imperial Tobacco's success in the marketplace has been built on understanding smokers' preferences and satisfying these on a cost-effective basis. In 1994, the company embarked on a number of programs to ensure that productivity will make a substantial contribution to earnings growth in the years ahead.

In December, we announced a plan to invest $118 million over the next five years in streamlining manufacturing operations and modernizing machinery. Another major initiative is Triple I (Integrated Information at Imperial), a computerized information system that will make virtually every business function more efficient. Furthermore, to allow Imperial to focus on product profitability, an activity-based management system was adopted in 1994. All costs and revenues were analyzed by type of activity, product, geographical area, and point of manufacture and then benchmarked against those of other best-practice companies.

Outlook

The near-term outlook is for continued earnings growth fuelled by domestic market share gains and productivity enhancements. Over time, we will look to increase volumes by pursuing opportunities in international markets.

Imperial Tobacco has significant strengths including superior Canadian trademarks and a deep understanding of consumers gained through extensive market research. Above all, we have outstanding employees who have created the market leadership position our company enjoys today. Together, these assets equip us well to meet the challenges of tomorrow.

R. Donald Brown
Chairman, President, and Chief Executive Officer

Highlights of operations

Millions of dollars, except as noted	1994	1993	1992	1991	1990
			Years ended December 31		
Revenues	**3,754**	3,703	3,999	4,320	4,274
Net investment income	**1,115**	1,050	1,049	957	841
Provision for investment losses	**140**	205	236	115	70
Earnings from operations (CT Financial Services' pre-tax earnings)	**333**	232	252	320	318
Net earnings attributed to common shareholders	**196**	145	181	210	201
Return on average common shareholders' equity – fully diluted (%)	**10.1**	7.9	10.2	12.8	13.2

CT Financial Services is a market leader in personal financial services with principal operating companies in Canada and the United States.

Canadians know the company as Canada Trust, one of the country's largest financial institutions, with $40 billion in corporate assets.

In the United States, CT operates through First Federal Savings and Loan Association of Rochester. First Federal had $9 billion in corporate assets at year-end.

[illegible] Walker, Assistant Vice-President of Employee Development and Communications: "Our people really make a difference, and that's why we believe so strongly in ongoing employee development. The programs and initiatives offered by our training services group help people develop their product knowledge, their sales and service skills, and their management knowledge. The end result is that employees have a better understanding of Canada Trust's vision and values and provide superior service to our customers."

In 1994, CT Financial Services progressed toward becoming a North American leader in personal banking services. Our success can be measured on three major fronts: financial growth, operational productivity, and marketing and product innovations.

Financial growth

Net earnings attributed to common shares increased 35% to $196 million, and fully diluted net earnings per common share were $1.64, an increase of 36%. The company exceeded its 1994 target of a 10% return on average common shareholders' equity, fully diluted.

Deposits grew 5% to $42 billion in 1994, with part of the increase attributable to rising interest rates, which encouraged customer migration from equity-based investments to term deposits. A better measure of performance is the sum of deposit growth and mutual fund growth. Using this yardstick, Canada Trust gained market share in a slow market environment.

Consolidated assets under administration, measured at book value, were $182 billion at year-end, up 14%. Continued growth was once again achieved by *Everest* Mutual Funds (assets up 23% to $4.1 billion) and by Canada Trust's pension and institutional custody group (assets up 19% to $114 billion).

Overall asset quality improved considerably in 1994. Net non-performing investments decreased 52% to $137 million, reflecting the sale of $41 million of net non-performing loans by First Federal, the stronger business activity in North America, as well as the company's more disciplined approach to problem loans. The ratio of net non-performing investments to total investments declined from 0.62% in 1993 to 0.28% at year-end.

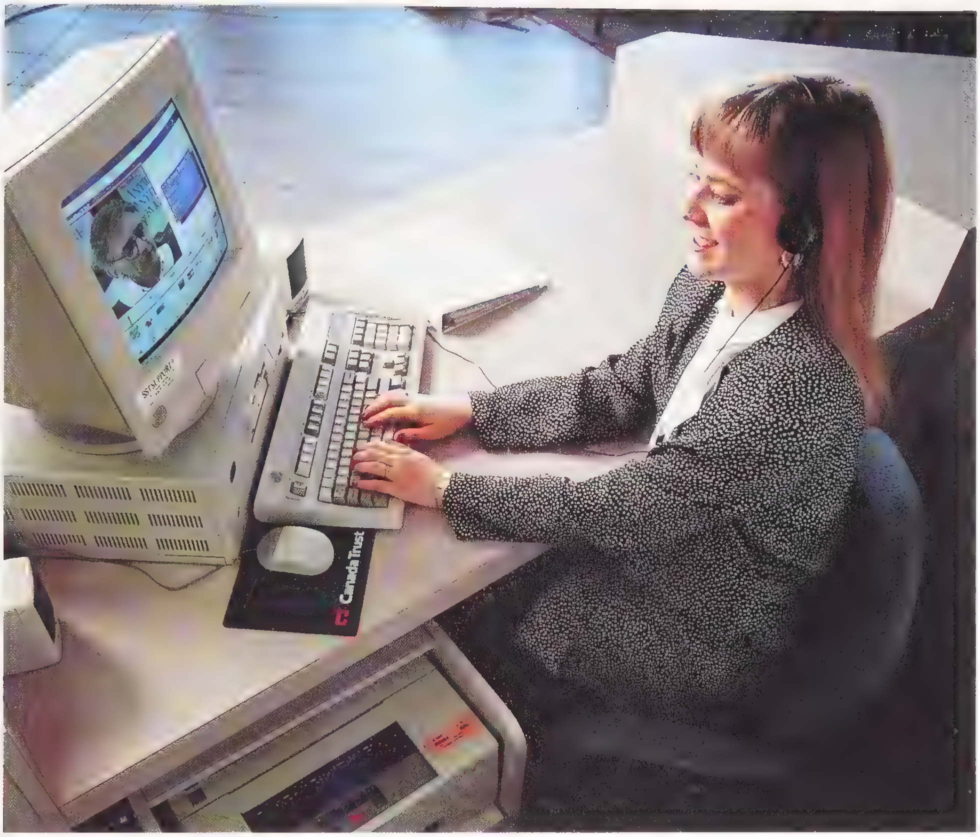
Although both Canadian and U.S. economies grew stronger during 1994, interest rates experienced an unprecedented degree of volatility, particularly in Canada. Despite this, we were able to improve spread in 1994 from 2.32% to 2.37%.

Furthermore, North American stock and bond markets registered disappointing performances in 1994. While our mutual fund portfolio grew through substantial new investments, the average market value of our fund units fell 4.74%. Since mutual fund fees are based on the market value of fund assets, the decline affected revenues.

Enhanced productivity

The continuing success of CT Financial's re-engineering program and focus on cost reduction enabled us to improve efficiency while handling the increased business volumes of 1994. Our efficiency ratio (operating expenses relative to operating revenues) improved by 1%, meeting the 1994 objective.

Expansion of our alternative distribution channels added to customer convenience while contributing to improved efficiency. Canada Trust's conventional ABMs and drive-thrus increased by 34%, and we are now the market leader in drive-thru banking, with 100 locations. The *EasyLine* telephone banking system registered over 6.5 million calls in 1994, and a second call centre established in New Brunswick this year nearly doubled the system's capacity.



In 1994, Canada Trust inaugurated Sales and Service Technology (SST), an ambitious project to revamp the hardware and software supporting customer service delivery. SST has ushered in the era of "paperless banking. Customers need only give verbal instructions to make deposits, withdrawals, and transfers. By speeding up transactions, SST affords customer service officers more time to provide consultative services to clients. SST was introduced last fall in selected branches in Ontario and will be rolled out nationally by 1996.

Development of training materials for SST users was undertaken completely in-house, by two Canada Trust teams. The core of training consists of multi-media computer modules that take full advantage of the PC's graphic and sound capabilities. Trainees such as Suzanne Roes, left, wear headsets and participate in simulated transactions "face-to-face" with the customer. Individuals work through the modules at their own speed. Because of the individualized format, several days of training can now be accomplished in one.

Canada Trust also added 21 full-service branches in selected markets.

This performance was accomplished with fewer employees in the retail system. Throughout the re-engineering process, employees engaged in administrative functions have been redeployed to front lines. As of 1994, nearly 70% of CT Financial's 15,000 staff are in daily, face-to-face contact with customers.

Market innovations

Canada Trust continues to focus on personal banking to ensure that its services and products are competitive in variety, sophistication, and quality. The year's initiatives focused on deepening our relationships with customers and on creating easier access to products and services. For example, a 1994 acquisition in discount brokerage as well as enhanced treasury management services are enabling us to meet a wider range of our customers' financial needs. Our new *AccessCard* gives customers entry to Canada Trust's unique 24-hour-a-day, 7-day-a-week banking system, and over 1.5 million cards were distributed during the year. We launched a series of four new credit cards as part of our value-added MasterCard series featuring one of the lowest annual Gold Card fees and lowest monthly interest rates available in Canada today. And *EasyLine* 24-hour telephone banking now offers operator service in Mandarin and Cantonese in addition to English and French.

First Federal broadened its "relationship banking" through *FinanciaLink*, a program that rewards customers with value-added benefits on combined chequing, savings, and consumer loan balances. The company also offers personal investor services through its subsidiary, First Diversified Financial Services. And *Mortgage Select USA*, an innovative computer service package, was introduced to real estate brokers and builders. This service will strengthen First Federal's position as a major nationwide mortgage provider.

Future strategy

Our strength as a company derives from a complement of employees that is second to none and focused on providing the best personal financial services available. Among financial institutions, we have positioned ourselves as a lower risk company through our credit policies and sophisticated interest rate management. Over time, we will pursue an integrated strategy for our businesses, exploiting our presence on both sides of the Canada-U.S. border.

We believe these strategies will create a unique personal financial services company with solid growth prospects. By *Thinking like a customer*, we will manage our client relationships ever more effectively, and we expect to increase our profitability and returns to shareholders again in 1995.

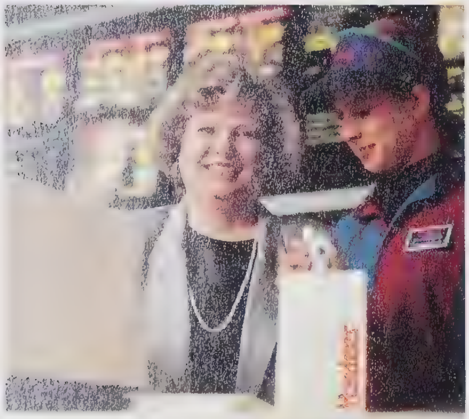
W. Edmund Clark
President and Chief Executive Officer

Highlights of operations					Years ended December 31
Millions of Canadian dollars, except as noted	**1994**	1993	1992	1991	1990
System sales	**6,613**	6,397	5,750	5,012	4,833
Revenues	**2,609**	2,625	2,365	2,097	2,153
Earnings from operations (millions of US dollars)[1]	**97**	67	63	40	62
Earnings from operations[1]	**133**	86	77	46	72
Average sales per restaurant (thousands of US dollars)	**1,007**	1,016	1,011	938	940
Additions to capital assets	**94**	83	90	61	145

1 1993 includes a pre-tax charge of $24 million (US $18 million) related to the sale of 84 restaurants in Philadelphia.

Hardee's Food Systems is the fourth-largest U.S. quick-service restaurant company. Its 4,006 restaurants include 72 in the Middle and Far East. Approximately 73% of the restaurants are operated by licensees, and 490 bear the Roy Rogers trademark.

Hardee's sister company, Fast Food Merchandisers, provides food and supplies to system restaurants and to third party accounts.



Barbara Pacifico, Director of Training and Development: "Training and development of our people is a never-ending process. The more 'developed' employees become, the more their feelings of self-worth increase and the more valuable they are to the system...Every employee of Hardee's and the franchise community is considered a customer. Ultimately, all training efforts are strategically linked to Hardee's business initiatives to provide these internal customers with education and training that impact the profitability of Hardee's."

Improved results

Hardee's improved its performance in a difficult environment in 1994. The year began slowly, with the harshest winter conditions in 20 years contributing to lower customer counts in several markets. This seasonal setback, coupled with fierce competition all year long, resulted in a 3.9% sales decline on a comparable restaurant basis. Nevertheless, stronger customer counts were achieved by year-end through re-introducing Roy Rogers original roast beef sandwiches and instituting a more competitive value menu at Hardee's.

Earnings from operations, expressed in Canadian dollars, were up 56% in 1994. Principal factors contributing to the increase were the relative strength of the US dollar, lower occupancy costs that resulted from the unwinding of a 1988 sale and leaseback transaction involving 279 Hardee's restaurants, as well as the loss taken in 1993 on the sale of 84 Roy Rogers restaurants in Philadelphia. On a fully comparable basis, US dollar earnings from operations were up 2%.

Productivity and pleasing customers

During the past three years, we have lowered the costs of operations substantially. A leaner, more flexible system has emerged, one better able to respond to market conditions. And respond we must. Because of heavy-discounting, competitive battles are raging throughout the industry, and we must continually find ways to convince customers to enjoy a meal with us rather than with our competitors. Hardee's restaurants serve in excess of one billion meals and snacks a year, and with this amount of exposure we cannot afford to be anything less than outstanding.

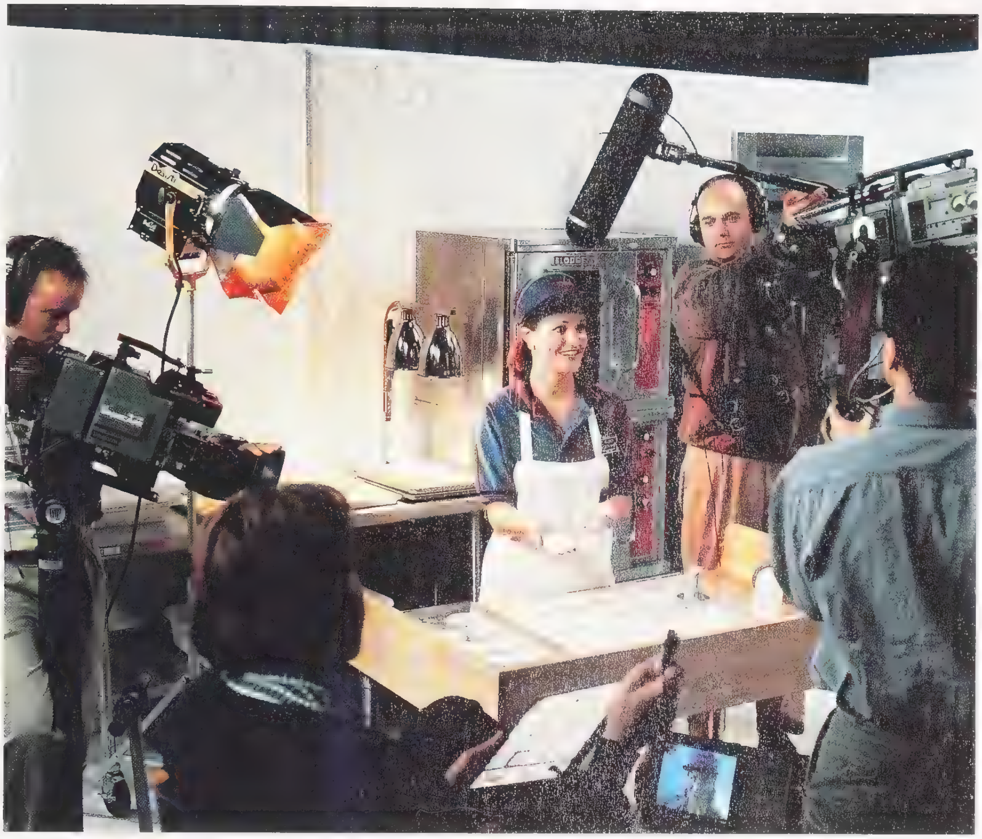
Entering 1994, our strategy was to preserve margins and avoid heavy discounting. This resulted in a gradual erosion of customer visits through the first half of the year. To recoup some of the lost transactions, Hardee's began to discount selected items in the third quarter while preserving margins on the core menu. Value menu offerings included *Frisco Flips*, smaller versions of our popular *Frisco* burgers and sandwiches, as well as novel combination dinners. Good customer response to the value menu and to products offered on a limited-time basis helped to moderate sales declines by year-end.

We also took steps to strengthen the Roy Rogers trademark. These included new menu items and TV advertising employing Roy Rogers as a spokesperson. Comparable restaurant sales recovered, and an increase was reported in the fourth quarter.

Planning to grow

Hardee's strengths include a strong brand image, good market penetration in our geographical areas, and a solid infrastructure of people, systems, and knowledge. We do the largest breakfast business in the industry, built around Hardee's *Made-from-Scratch* biscuit. Our chicken dinner business, introduced a few years ago, is developing well–indeed, we have become the second-largest chicken restaurant chain in the world. The ability to compete at all three mealtimes sets us apart from competitors.

Yet we recognize the need to revitalize sales, particularly at lunchtime. We also realize



Hardee's new recruits master the knowledge skills, and abilities they need to join the "crew" through a recently re-designed, performance-based training system. Topics include customer service, safety, and mealtime production techniques, and all are broken down into required core competencies. Teaching methods include crew booklets supplemented by videos demonstrating key procedures. Pictured at left is a taping session for Hardee's popular Made-from-Scratch *biscuits. Full crew certification is gradual and is generally accomplished over a six-month period. Beyond that, Hardee's continuing development programs enable employees to upgrade their skills and develop the required management capabilities to assume leadership roles in the system*

Hardee's prides itself on the company's state-of-the-art training techniques, all of which are based on sound education, business, and organizational theory and practice. Training developers actively benchmark the best practices of other fast-food systems and employ focus groups to gather feedback from end users of previous Hardee's training and development programs

we cannot be all things to all people. Accordingly, Hardee's long-term focus in 1994 was on its positioning with consumers. Extensive market research was undertaken to understand the needs and attitudes of customers. This work identified preferred target segments and will move into a test phase in 1995 at both Hardee's and Roy Rogers. The goal is to build our credentials with customers in the areas of taste, choice, and freshness at all three mealtimes while meeting the competition on perceptions of value, cleanliness, service, and speed. We are confident that refining the Hardee's and Roy Rogers' concepts will pay off in renewed growth in comparable store sales, customer counts, and earnings from operations.

Fast Food Merchandisers undertook a significant review of its manufacturing operations in 1994. The results have already begun to contribute to earnings, with the full benefits to be realized in 1995. In addition to productivity benefits, the review accelerated development of a new chicken sandwich that will help the restaurant system compete in the value segment.

Industry consolidation

The intense competitive environment is also generating opportunities. Some smaller, regional chains are struggling, and we believe that more consolidation is inevitable. This year, Heartland Food Systems, owner of Rax restaurants, a well-known Ohio roast beef and specialty sandwich chain, agreed to convert 52 restaurants to the Hardee's trademark. Heartland also purchased 61 company-owned restaurants from Hardee's and merged with a 104-unit licensee, making it Hardee's third largest licensee. As part of the agreement, 100 new Hardee's restaurants are slated to open in Ohio over the next six years.

A strong team

In 1994, our management team gained new depth. Donald Doyle joined us as Chief Operating Officer of Hardee's, and we will benefit from his broad leadership skills acquired from more than 20 years in the industry. Roy Rogers also gained a new and very capable leader in Al Schnitzlein. As Chief Operating Officer, Al is responsible for the continued recovery of the division.

With the in-depth knowledge of customers we gained in 1994, plus the demonstrated commitment and energy of our employees, I am confident that Hardee's will continue to gain strength and momentum in 1995.

Robert Autry

Robert F. Autry
President and Chief Executive Officer

Highlights of operations

Millions of dollars, except as noted	1994	1993	1992	1991	1990
				Years ended December 31	
System sales	**3,230**	3,181	3,089	2,934	2,844
Revenues	**193**	181	172	162	148
Earnings from operations	**102**	100	95	89	82
Average sales per store	**5**	5	5	4	4
Average sales per square foot (dollars)	**798**	801	806	786	778
Number of stores	**689**	690	678	671	645
Additions to capital assets	**54**	50	41	31	34

Shoppers Drug Mart/Pharmaprix is Canada's leading drugstore group, with 689 locations across the country.

Shoppers Drug Mart/Pharmaprix pharmacists, our "associates," own and operate their stores under licence. The associate concept pairs the dynamism of entrepreneurs at the store level with the strong support of regional and corporate teams.

[illegible] Reinholdt, Vice-President, Training and Development: "Excellence in customer service really begins with training. Our associates and their management teams know that training and communication are essential to success. They count on us to create unique training programs so that every store can be a market leader. This means emphasizing applications and also tying training to the goals and objectives of the company. Good training underscores where the company as a whole wants to go."

Profitability amidst challenges

The operating earnings of Shoppers Drug Mart/Pharmaprix increased to $102 million in 1994. Total system sales were $3.2 billion, up 2%, and, excluding tobacco sales, increased 3.4% on a comparable store basis. (Tobacco distorts comparisons because of the substantial decrease in retail prices after the tax rollbacks.) This is satisfactory, considering that in 1994 price inflation was virtually nil, and the competition was unprecedented.

Pharmacy is the heart of our business. We fill 34 million prescriptions annually, which translates to a 16% Canadian market share. This year we introduced a *Health-Watch Reminder* program to provide instructions, special care requirements, and information about potential drug interactions and side effects for every prescription we sell. Sales of over-the-counter (OTC) medications also increased significantly.

Life Brand and *Rialto*, our private labels, enjoyed a banner year, with a sales increase of approximately 25%. These products offer our customers premium quality at lower prices, while providing us with higher margins than the national brands. Their success contributes significantly to overall margin stability. We believe we have the strongest private label program in the North American drugstore industry.

A formidable retail environment

Government efforts to reduce health-care costs have resulted in the reclassification of many prescription drugs to OTC status. This renders them non-reimbursable under government plans and can discourage their purchase. To ensure that our customers' needs are properly met, our associates are taking special care to counsel patients on their OTC medications.

The OTC policy changes are not the only challenges facing Canadian pharmacies. This year the pace of change seemed brisker than ever, and competition intensified. Products once exclusively in the domain of drugstores are now on the shelves of supermarkets, food-drug combos, and discount department stores. Club-style chain stores actively discount health and beauty aids and cosmetics, and those with companion pharmacies are discounting prescriptions as well. Mail-order pharmacies have cropped up, and, while these distribution outlets have not gained a significant market share, they have highlighted the importance of price and service in filling prescriptions.

Our strategy is to emphasize the features that make our stores distinct, namely their convenient locations and shopping hours and our system-wide "legendary service" standard. We increased the number of extended-hour stores this year. By the end of 1994, more than 170 of our 689 locations were open until midnight – 26 for 24 hours, generally in areas serving hospitals in Canada's major metropolitan centres. In the future, we will be placing even more Shoppers Drug Mart/Pharmaprix stores in downtown areas, where convenience is at a premium.

Bill 119, a tobacco control law, came into force in Ontario on January 1, 1995. Among other measures, the law prohibits the sale of tobacco products in Ontario pharmacies and in stores having pharmacy departments. This will have a negative impact on our 1995 earnings. However, in the longer

Vision 97's implementation will demand new skills of virtually all Shoppers/Pharmaprix personnel, and the roles of associates, store managers, and store accountants will change dramatically. A system-wide training program is now being developed to help each employee grow into the Vision 97 environment

The team behind the training effort combines veterans of Shoppers' operations with training professionals. Shown at a planning session at Shoppers' National Koffler Academy in Toronto are, from left to right, Gaye Mandel, Linda Sirizotti, LuAnne Dupon, Harriet Chepesiuk, Stella Dizes, Bobbi Reinholdt, and Mike Del Grande. (Absent is Joyana Anisio)

Training will be delivered via a relay system in which district coordinators train management teams whose members, in turn, train store personnel. In a model inspired by Canada Trust's Sales and Service Technology training, a major portion of the learning will be accomplished on site through self-paced modules. One-on-one coaching by supervisors will emphasize real-world applications of training concepts

term, we expect some offsetting benefits. We will use the freed-up space to market other product lines, including photofinishing. Ultimately, we believe that the loss of tobacco revenues, combined with pressure on prescription prices, will result in increased market share for Shoppers Drug Mart/Pharmaprix, as we are better positioned than some of the other chains and independent pharmacies to withstand these changes.

Other new market opportunities beckon. A 1995 project will couple in-store promotions with purchases of professional basketball tickets. Additional areas of promise are convenience food, which is a draw for today's two-career families, and home health care, an emerging business with excellent potential. Creative marketing along these and other avenues, plus our in-depth knowledge of Canadian consumers and our longstanding relationship with them, will keep us a strong contender.

Reinforcing our competitiveness

Shoppers Drug Mart/Pharmaprix has grown stronger every year. However, we have not grown complacent. In 1994 we launched Vision 97, a three-year program to reconfigure the buying, distribution, accounting, and regional office activities of Shoppers and its associates, with the goal of improved efficiency in product acquisition and operations. The program will ensure that Shoppers/Pharmaprix is competitive on both these dimensions, and it will enhance our already superior capabilities in marketing, merchandising, and customer service.

Through Vision 97, all Shoppers Drug Mart/Pharmaprix supplier negotiations will be centralized to better leverage our multi-billion dollar buying power. Approximately 75% of the products we buy will move through three new regional distribution centres. And point-of-sale technology in every store will generate inventory data that will be the heart of the system. Other technology components of Vision 97 include new computer hardware, specialized software, and satellite communications. All aspects of the program will be implemented by 1997. Our goal is to effect the transformation while maintaining earnings from operations at 1994 levels, after adjusting for the impact of removing tobacco from Ontario stores.

Vision 97 is technology-based, but the program's ultimate focus is on customers. It is they who will benefit from lower selling prices and improved service, as redeployed staff devote more time to meeting customer needs. These advantages will help Shoppers Drug Mart/Pharmaprix to increase its market share and earnings in the years ahead.

Clearly, we do not lack opportunities and challenges at Shoppers Drug Mart/Pharmaprix. These days, perhaps more than ever, the associate concept is our best bet for winning. It keeps us close to our customers while providing the backing of a great national system. Given the tremendous competence, energy, and determination of the group's 25,000 employees, we can only grow stronger.

David R Bloom

David R. Bloom
Chairman and Chief Executive Officer

GENSTAR

UCS

Genstar Development Company				Years ended December 31	
Millions of dollars, except as noted	**1994**	1993	1992	1991	1990
Revenues	**82**	98	96	67	93
Earnings from operations	**27**	33	34	30	36
Number of single family lots sold	**1,271**	1,705	1,553	1,173	1,745
Land inventory (acres)[1]	**21,622**	21,160	20,406	19,035	18,802
Land inventory acquired (acres)[1]	**1,056**	1,090	1,811	587	174

1 Includes land held through joint ventures and partnerships.

Genstar Development Company creates master-planned communities from raw land in North American markets and sells serviced lots and parcels to home builders. The company aims to be the low-cost producer wherever it operates.

Earnings from operations were down slightly in 1994. This was expected and can be attributed to a combination of weakness in some markets and our current emphasis on replenishing land inventories. However, the $33 million we have reinvested in both Canada and the U.S. over the past two years will lead to renewed profit growth as projects come on stream in 1996 and beyond.

Our successful Canadian strategy is to work in markets where raw land banks were established at reasonable prices – in most cases, many years ago. The book value of these land inventories is conservative, since carrying costs are expensed as incurred. Consequently, margins tend to be attractive once projects come to market.

Genstar is well down the road to implementing a U.S. expansion strategy to solidify long-term earnings prospects. We have acquired an interest in 5,697 acres, either directly or in partnership, in Minneapolis, San Diego, Spokane, and Portland, Oregon. In many of these projects, Genstar is leveraging its knowledge and land development skills through joint ventures in which partners contribute the land. Profits are ultimately shared, with minimum up-front investment on our part.

We have also strengthened our management team with the promotion of Frank Thomas to President and Chief Operating Officer and the appointments of Brian Laidlaw to Executive Vice-President and Gary Harrison to Senior Vice-President.

Les Cosman
Chairman and Chief Executive Officer

The UCS Group				Years ended December 31	
Millions of dollars, except as noted	**1994**	1993	1992	1991	1990
Revenues	**194**	288	302	305	315
Earnings (loss) from operations[1]	**(16)**	(6)	(4)	(2)	9
Average sales per store (thousands of dollars)	**587**	590	588	580	592
Average sales per square foot (dollars)	**865**	825	821	811	834
Additions to capital assets	**2**	4	2	5	6

1 1994 includes a restructuring charge of $12 million.

The UCS Group operates 140 CTN (confectionery, tobacco, and news) stores, principally in malls and office complexes, and 110 travel-related specialty shops in resort areas, hotels, and airports across Canada.

It was a year of major restructuring for The UCS Group. By the end of 1994, our network of 476 stores had been pruned to 250, and we had narrowed our focus to two core businesses: CTN stores and travel-related specialty shops.

Two events made restructuring inevitable. First, we lost our tobacco shop concessions in 152 Canadian Woolco stores as a result of Wal-Mart's acquisition of the chain early in the year. Closing these operations eliminated one-third of our sales base and a significant profit centre. Second, continuing losses were being accumulated in a number of stores, notably in the former Den for Men division. UCS had to rationalize the remaining store network and cut management and overhead costs nearly in half.

Our two selected core businesses require distinct strategies. The CTN division is characterized by high volume and low margins, conditions that demand efficient operations. Customer convenience and speedy service are vital. Several new merchandising opportunities are currently being pursued to build this division.

In the travel-related specialty business, UCS is the choice of major Canadian hotel chains and the leading player in airports from coast to coast. Merchandise in these locations commands good margins, and the expected increase in tourism and travel over the coming years is encouraging.

Since restructuring in July, operations have steadily improved, and a modest operating profit was earned in the second half of the year. We believe we have established a stable base for future growth.

David B. Stewart
President and Chief Executive Officer

Imasco's Board of Directors has ultimate responsibility for the management of Imasco, including the oversight of its operating companies (Imperial Tobacco, Hardee's Food Systems, Shoppers Drug Mart / Pharmaprix, Genstar Development Company, and The UCS Group), its ownership interest in CT Financial Services, and its investments.

The Board of Directors discharges its responsibilities directly and through its committees. At regularly scheduled meetings, members of the Board receive and discuss reports on the operating companies and CT Financial Services as well as on Imasco's overall financial position and its investments. Strategic, financial, and succession plans are approved. In addition, developments and issues of current relevance are reviewed, and reports of Board committees are received and considered. Additional meetings are held as required. There were seven meetings of the Board of Directors in 1994.

All committees of the Board have a majority of members who are non-executive directors, and in the case of the Human Resources Committee and the Nominating and Corporate Governance Committee, all members are non-executive directors. The leaders of Imasco's principal operating companies are members of the Board. This enables them to contribute to the overall governance of Imasco and provides non-executive directors direct and frequent access to these key people. Such access helps the non-executive directors assess the calibre of management and better understand Imasco's businesses and the issues they face.

Management of CT Financial Services and First Federal Savings and Loan Association of Rochester is the ultimate responsibility of their respective boards of directors. Three senior executives of Imasco are directors of CT Financial Services, and one is a director of First Federal. Purdy Crawford, Chairman and Chief Executive Officer of Imasco, is the non-executive Chairman of CT Financial Services.

Following is a brief description of the mandate of each Board committee, its composition, and the number of meetings held during the past year.

Executive Committee

The Executive Committee may exercise all the powers of the Board, with certain exceptions prescribed by law.

The committee met three times in 1994.

Chair: Purdy Crawford
Members: Nan-Bowles de Gaspé Beaubien, Charles H. Hantho, Brian M. Levitt, Russell E. Palmer, Angela C. Peters, J. Robert S. Prichard, Bernard A. Roy, Ronald D. Southern.

Human Resources Committee

The mandate of the Human Resources Committee is to:

- Cause to be formulated and monitor the implementation and effectiveness of compensation policies to ensure that Imasco and its operating companies are able to recruit, retain, and motivate performance-oriented executives, and that their interests are aligned with the interests of Imasco shareholders;
- Oversee succession planning for Imasco and its operating companies and make recommendations to the Board;
- Recommend to the Board the appointment of the officers of Imasco as well as the most senior officer of each operating company;
- Assess at least annually the performance of the Chief Executive Officer and determine his or her compensation and benefits;
- Review annually with the Chief Executive Officer the performance of the most senior officers of Imasco and the most senior officer of each operating company and determine their compensation and benefits;
- Administer the Stock Option Plan and approve stock option grants in accordance with the terms and conditions of the plan.

The committee met six times in 1994.

Chair: Russell E. Palmer
Members: Nan-Bowles de Gaspé Beaubien, Charles H. Hantho, Angela C. Peters, Ronald D. Southern.

Audit Committee

The principal functions of the Audit Committee are to:

- Review annual and interim financial statements and all legally required public disclosure documents containing financial information, before they are approved by the Board;
- Review the nature and scope of the annual audit;
- Evaluate the external auditors' performance for the preceding fiscal year, review their fees, and make recommendations to the Board;
- Examine the presentation and impact of significant risks and key management estimates and judgments that may be material to Imasco's financial reporting;
- Review the internal auditors' audit plan for the ensuing year, budget, organization, activities, and performance;
- Review the adequacy of internal accounting control procedures and systems;
- Review compliance with Imasco's Code of Business Conduct and Conflicts of Interest Policy.

The committee met five times in 1994.

Chair: Charles H. Hantho
Members: Jack A. Laughery, Jean-Louis Mercier, J. Robert S. Prichard, Bernard A. Roy.

Nominating and Corporate Governance Committee

The mandate of the Nominating and Corporate Governance Committee is to:

- Develop and monitor Imasco's system of corporate governance;
- Annually recommend the members proposed for re-election to the Board;
- Periodically review and evaluate the performance of all directors and the Board as a whole;
- Annually review the compensation and benefits of the directors in their capacity as directors and make recommendations to the Board;
- Select new candidates for Board membership and make recommendations to the Board;
- Annually review the membership and chairs of committees of the Board, periodically review the powers, mandates and performance of the committees and make recommendations to the Board.

The committee met three times in 1994.

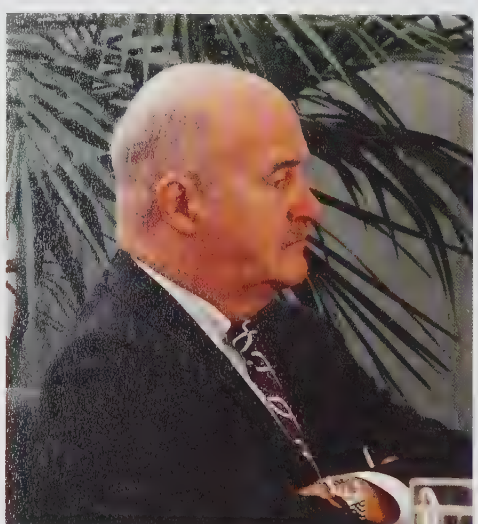
Chair: Angela C. Peters
Members: Nan-Bowles de Gaspe Beaubien, Ronald D. Southern.

Purdy Crawford, Westmount, Québec. Director since 1973. Chairman and Chief Executive Officer, Imasco Limited. Chairman, CT Financial Services Inc. Director of Avenor Inc., Camco Inc., Dominion Textile Inc., Inco Limited, Trinova Corporation. Chancellor, Mount Allison University. Governor, McGill University, Royal Victoria Hospital Corporation. Advisory Board, Oxford Frozen Foods Limited.

Russell E. Palmer, Bryn Mawr, Pennsylvania. Director since 1989. Chairman and Chief Executive Officer, The Palmer Group. Director of Allied-Signal Inc., Bankers Trust Company, Bankers Trust New York Corporation, Contel Cellular, Inc., Federal Home Loan Mortgage Corporation, GTE Corporation, Safeguard Scientifics, Inc., The May Department Stores Company. Trustee, University of Pennsylvania.

Bernard A. Roy, Q.C., Nuns' Island, Verdun, Québec. Director since 1989. Senior Partner, Ogilvy Renault. Director of Foundation of the Board of Trade of Metropolitan Montréal, Institut de Design Montréal, Intrawest Corporation, Métro-Richelieu Inc., Montréal Symphony Orchestra, Trizec Corporation. Governor, National Theatre School of Canada, The Portage Program for Drug Dependencies Inc., Royal Victoria Hospital Corporation, Université de Montréal. Trustee, McCord Museum of Canadian History, Stanstead College.

J. Robert S. Prichard, O.C., Toronto, Ontario. Director since 1993. President, University of Toronto. Professor, Faculty of Law, University of Toronto. Director of Association of Universities and Colleges of Canada, Japan Society, ONEX Corporation, Toronto Economic Advisory Committee. Governor, University of Toronto, Upper Canada College. Trustee, Royal Ontario Museum, Toronto Hospital.



Robert F. Autry, Rocky Mount, North Carolina. Director since 1991. President and Chief Executive Officer, Hardee's Food Systems, Inc. Chief Executive Officer, Fast Food Merchandisers, Inc. Director of Boy Scouts of America, East Carolina Council, Rocky Mount Boys and Girls Club.

Ronald D. Southern, C.M., M.B.E., Calgary, Alberta. Director since 1993. Chairman and Chief Executive Officer, ATCO Ltd., Canadian Utilities Limited. Director of Canadian Airlines International Ltd., Canadian Pacific Limited, Chrysler Canada Ltd., Easton United Holdings Ltd., Fletcher Challenge Canada Limited, Fletcher Challenge Limited (New Zealand), Lafarge Corporation, PWA Corporation, Royal Insurance Company Limited, Xerox Canada Inc.

Nan-Bowles de Gaspé Beaubien, Westmount, Québec. Director since 1987. Vice-Chair, Gasbeau Inc. Director of Telemedia Corp., Canadian Association of Family Enterprises, Montréal Institute for Family Enterprises, Terry Fox Humanitarian Award Committee. Co-Chair, International Centre for Family Enterprises, Inc.

Brian M. Levitt, Westmount, Québec. Director since 1989. President and Chief Operating Officer, Imasco Limited. Director of CT Financial Services Inc., First Federal Savings and Loan Association of Rochester, Montcrest School, Westbury Canadian Life Insurance Company, Canadian Club. Advisory Board, Faculty of Management, McGill University.

Charles H. Hantho, Montréal, Québec. Director since 1993. Chairman, Dominion Textile Inc., Dofasco Inc. Director of Inco Limited, Montréal YMCA Foundation, TransAlta Corporation.

Jean-Louis Mercier, Ste-Julie-de-Verchères, Québec. Director since 1979. Vice-Chairman, Imasco Limited. President, Imasco Pension Fund Society.

Angela C. Peters, Halifax, Nova Scotia. Director since 1987. Director of Xerox Canada Inc.

Raymond E. Guyatt, C.A., Westmount, Québec. Director since 1990. Executive Vice-President and Chief Financial Officer, Imasco Limited. Director of CT Financial Services Inc.

David R. Bloom, Thornhill, Ontario. Director since 1983. Chairman and Chief Executive Officer, Shoppers Drug Mart. Chairman, Canadian Association of Chain Drug Stores. Director of CT Financial Services Inc., Mount Sinai Hospital. Advisory Council, Faculty of Administrative Studies, York University, National Association of Chain Drug Stores.

Jack A. Laughery, Rocky Mount, North Carolina. Director since 1981. Director of First Union Corporation, Carolina Telephone and Telegraph, Papa John's International, Inc. Member of the Republican National Committee.

R. Donald Brown, Westmount, Québec. Director since 1993. Chairman, President, and Chief Executive Officer, Imperial Tobacco Limited.

"Business success would be hollow without the chance to do some good in the communities we live in and depend upon." – CEO Purdy Crawford addressing the Canadian Club of Montréal, October 1994.

Imasco has a long tradition of community support. Each year, the company engages in a corporate donations program targeted to selected organizations representing social welfare causes and activities. In 1994, combined contributions from Imasco and its companies to charitable organizations in Canada and the United States were over $8.9 million. Donations were made as follows:

1994 Donations by Imasco Companies

Imasco Corporate Donations*	$3,631,644
du Maurier Arts Ltd.	1,348,000
Canada Trust	3,165,000
Hardee's	761,264
Total	$8,905,908

* Includes Imperial Tobacco, Shoppers Drug Mart/Pharmaprix, Genstar Development, and The UCS Group.

Why do we give? Fundamentally, Imasco believes in giving something back to society. As a consumer goods and services company, we owe our marketplace success to customers. We feel close ties to these customers and, by extension, to their communities. Our companies operate in over 3,000 towns and cities across North America, and members of the Imasco family (200,000 strong) take pride in our collective efforts to strengthen these communities through financial support and voluntarism. In the end, good corporate citizenship is self-interest of the most enlightened kind, because in supporting our communities, Imasco is helping to create a stronger society and, ultimately, a stronger market for our goods and services.

There is ample opportunity to exercise our will to give. Faced with burdensome debt, governments from coast to coast have made deep spending cuts. As a result, thousands of worthy social and human-service programs across North America increasingly depend on private support. And education, culture, and the arts are vital to every civilized society and cannot be allowed to languish.

As substantial as Imasco's donations budget is, the company cannot meet every request for funds. Each year our donations committee must make difficult choices. In making donations, Imasco follows two main strategies. First, we give widely to a large number of organizations. Priority areas are public welfare (primarily United Way/Centraide), aid to the disadvantaged, public health, education, cultural activities, sports and youth recreational organizations, and community development and the environment. A list of Imasco donations is published annually, and copies can be obtained by contacting the company.

Imasco also makes large-scale, strategic donations to causes or projects that will have major impact or substantial, long-term benefits. For example, in early 1995 Imasco announced a pledge of $350,000 to fund the development of 1,2,3 GO!, a Montréal-based program to be implemented under the auspices of Centraide. In 1994, du Maurier Ltd. donated $400,000 to the Capitol Theatre in Moncton to restore and rebuild this much-loved institution. And a $400,000 grant from Imasco on behalf of Shoppers Drug Mart will help establish the Marvelle Koffler Breast Centre at the Mt. Sinai Hospital in Toronto.

Past strategic donations include the Montréal Job Creation Initiative from 1986-92 ($7.75 million), renovation of Le Monument-National in 1992 ($700,000), and establishment of the Paul Paré Chair in Management Information Systems at McGill University in 1993 ($1.2 million). In 1981, Imasco created a scholarship endowment to help disabled students attend university. Its value is now $275,000, and 205 scholarships have been awarded to 120 students.

In addition, Imasco contributes to political organizations that support the principles of democratic government and a strong private sector. Donations to federal and provincial parties, political foundations, and fund-raising events totalled $114,150 in 1994. The company has never expected, sought, nor received any special consideration for its political contributions.

Imasco operating companies favour certain categories of charitable giving. Priority areas for each company, along with highlights of Imasco's 1994 corporate donations program, are presented on the facing page.

A Caring Company

By donating more than 1% of pre-tax earnings, Imasco qualifies as an *Imagine Caring Company*. The purpose of the *Imagine Campaign* is to stimulate voluntarism as well as donations from individuals and the corporate sector.

1,2,3 GO! Imasco's Purdy Crawford (in photo at left), flanked by Camil Bouchard (left), professor of psychology at l'Université du Québec à Montréal and volunteer Chair of 1,2,3 GO!'s implementation committee, and Michèle Thibodeau-DeGuire (right), President and Executive Director of Centraide, joins several children who will benefit from the Montréal neighbourhood initiative. Community resources in neighbourhoods served by Centraide will be mobilized to help children under the age of three have the best start possible in life.

Through *du Maurier Arts Ltd.*, **Imperial Tobacco** has an unmatched commitment

to funding arts and culture across Canada. Since its inception in 1971, the foundation has distributed over $37 million in grants and promotional support. In 1994, grants went to 132 groups in every province and one territory. Recipients included the Winnipeg Symphony Orchestra, pictured above with soloist Neal Gripp presenting the world premiere of Glenn Buhr's Viola Concerto at the 1994 du Maurier Arts Ltd. New Music Festival.

Player's Ltd. and *du Maurier Ltd.*, again brought world-class tennis, golf, motor-

racing, and equestrian events to Canadians. Pictured below, at left, is Jacques Villeneuve after his first victory in the Indy Car Championship at Elkhart Lake, Wisconsin. He finished second at the Indy 500, was designated "Rookie of the Year," and finished sixth overall.

CT Financial Services continued its support of local environmental initiatives through the *Friends of the Environment Foundation*. This non-profit organization was founded in 1990 by **Canada Trust**, and in 1994 it received an "Achievement Award" from Environment Canada as well as The Financial Post's prestigious "Green Marketing Award." Pictured below is Dr. Roberta Bondar (left), the Foundation Chair, helping members of the Environmental Youth Alliance spread composted soil in Cottonwoods Community Garden, a reclaimed Vancouver dump site.

First Federal's community efforts in 1994 focused on underwriting "First Place," an award-winning, $5 million affordable housing project in Rochester's core that has enabled low-income individuals and families to own their own homes.

Shoppers Drug Mart/Pharmaprix is deeply involved in health-care projects and in 1994 joined with the Canadian Breast Cancer Foundation to launch a national breast cancer awareness and education campaign. In addition, a five-year, $200,000 grant to the University of Calgary created the Shoppers Drug Mart Multi-

Media Learning Centre in the Faculty of Nursing. The centre has linked that institution with expertise from the wider medical community through Internet and sophisticated teleconferencing equipment. [illegible]

Hardee's [illegible]

Principals. In one program, student athletes from the Big Eight Conference serve as role models to demonstrate the benefits of staying in school. Pictured above is University of Kansas basketball player Greg Ostertag, working with students at a basketball camp.

The following comments and analyses, appearing on pages 25 to 34, 39, 41 and 43, are intended to be read in conjunction with the consolidated financial statements of the Corporation.

Results of operations

Imperial Tobacco

On February 8, 1994, the federal and Québec governments announced a series of corrective measures to reduce an alarming tobacco smuggling problem that existed in various parts of Canada. High tobacco taxation was the cause of the problem, and central to the corrective measures was a significant tax rollback. Subsequently, the governments of New Brunswick, Ontario, Nova Scotia, and Prince Edward Island also implemented tax reductions. The deepest provincial cuts came from Québec and Ontario, which represent approximately 65% of the Canadian market. In these two provinces, the retail price of a carton of cigarettes dropped by approximately 50%. Over a period of several years, taxation of tobacco products had grown significantly. As a result of increased retail prices, many Canadian tobacco consumers turned from the domestic, duty-paid market for manufactured cigarettes and roll-your-own tobacco to smuggled products. The tax rollback reversed this trend. The return to an orderly domestic distribution system favoured Imperial Tobacco, as its market share has historically been strongest in the domestic manufactured cigarette segment. Net revenues and earnings from operations improved considerably as a result.

The return of sales to the domestic segment from the export and duty-free segment following the tax rollback is illustrated in the following table of estimates for the Canadian industry's total shipments.

	1994	1993	1992
Domestic:	Billions of cigarettes or approx. equivalents		
Cigarettes	45.7	30.2	35.1
Roll-your-own	5.1	5.0	6.3
Export and duty-free:			
Cigarettes	1.9	14.4	8.1
Roll-your-own	0.6	2.8	2.3
Total[1]	53.3	52.4	51.8

1 Based upon Statistics Canada figures, adjusted to exclude non-Canadian brands manufactured by a competitor for foreign consumption, and Imperial Tobacco estimates. Amounts reported exclude (primarily in 1993 and 1992) foreign-manufactured products available in Canada and consumer purchases of raw leaf tobacco.

Prior to the tax rollback, foreign-manufactured products were entering Canada illicitly, and consumers were purchasing raw leaf tobacco to make their own cigarettes. Adjusting for these factors, Imperial Tobacco estimates 1994 total industry volume to be essentially unchanged from 1993. Shipments are sales to wholesalers and can vary with production and inventory levels. They do not reflect prevalence or consumption levels. Over the last three years, Canadian consumption has been difficult to measure accurately due to substantial quantities of tobacco distributed through illicit channels. In an effort to measure changes in smoking patterns, Health Canada and Statistics Canada have recently collaborated to conduct quarterly surveys on smoking in Canada. In the first survey, conducted in April and May 1994, it was reported that among persons aged 15 and over, 31% smoke cigarettes. Further, the report indicated that this is the same proportion as estimated in 1991 by Statistics Canada's general social survey. In the second and most recent survey, conducted in August and September 1994, it was reported that 30% of individuals aged 15 and over smoke.

Imperial Tobacco's net revenues increased 16% to $1.3 billion in 1994, primarily due to increased sales volumes. Total shipments of cigarettes and roll-your-own products increased 13% during 1994, principally as a result of a market share gain of 6.1 share points. Manufacturers' prices to the wholesale trade for cigarettes were last increased in July 1993, by 7.3%. The timing of this increase partially explains the improved net revenues, since sales were recorded at the higher prices throughout 1994, and only during 6 months of 1993. Imperial Tobacco's shipments and estimated share of market were as follows:

	1994	1993	1992
Domestic:	Billions of cigarettes or approx. equivalents		
Cigarettes	29.8	20.3	23.2
Roll-your-own	1.9	2.0	2.3
Export and duty-free:			
Cigarettes	0.9	6.2	2.5
Roll-your-own	0.1	0.4	0.3
Total	32.7	28.9	28.3
Market share (%)[1]	61.3	55.2	54.7

1 Based upon Statistics Canada figures, adjusted to exclude non-Canadian brands manufactured by a competitor for foreign consumption, and Imperial Tobacco estimates. Amounts reported exclude (primarily in 1993 and 1992) foreign-manufactured products available in Canada and consumer purchases of raw leaf tobacco.

The increase in Imperial Tobacco's overall market share following the tobacco tax rollback can be attributed to the strengths of its major Canadian trademarks, *Player's* and *du Maurier*, and to the effectiveness of its sales force in the domestic market. It also demonstrates the degree to which the company's sales were impacted by its voluntary decision to restrict export and duty-free shipments from April 1992 until March 1993, in support of the federal government's program to reduce smuggling. During this period other manufacturers filled the void, but after resuming export and duty-free shipments, Imperial Tobacco gradually recaptured market share in this segment, though not to normal domestic market share levels.

Earnings from operations increased 28% in 1994 to $592 million and represented 44.4% of net revenues compared with 40.2% in 1993. The increase is principally due to higher net revenues, but also reflects gross margin improvement due to a shift of volume from roll-your-own products to higher margin manufactured cigarettes, and cost management improvements. In conjunction with the tobacco tax rollback, the federal and Québec governments imposed a three-year surtax on profits of tobacco manufacturers, the proceeds of which, in the case of the federal government, are intended to be used for anti-tobacco activities. If the $39 million provided by Imperial Tobacco for tobacco surtaxes during 1994 were to be considered an operating cost and deducted from earnings from operations, Imperial Tobacco's 1994 earnings from operations and percentage increase from 1993 would be as follows:

	1994	1993	% change
	Millions of dollars		
Earnings from operations – as reported	592	462	28
less: Provision for tobacco surtaxes	39	–	–
Earnings from operations – adjusted for tobacco surtaxes	553	462	20

The main challenge for Imperial Tobacco is the long-term decline in consumption of tobacco products in Canada, principally due to

demographics, consumers' health concerns, and changing attitudes toward smoking. Allowing for variations from year to year, this long-term trend is expected to continue. In addition, government taxation and regulation of tobacco products continue to be major issues faced by all Canadian tobacco manufacturers.

Together with the rollback of tobacco taxes and the three-year surtax on profits of tobacco manufacturers, the federal government initiatives announced on February 8, 1994 also included the introduction of an $8 per carton of cigarettes excise tax on export sales in excess of three percent of the prior year's production (excluding sales to Canadian duty-free stores and tax-paid foreign markets, and export sales of brands not available in the Canadian market). Also included were legislation and regulations that raise the minimum age for the legal purchase of tobacco from 16 to 18, restrict the location of tobacco vending machines, regulate the minimum number of cigarettes per package, and require a marking on each cigarette sold in the domestic market. In anticipation of the passage of the law, Canadian tobacco manufacturers discontinued the manufacture of cigarette packages containing fewer than 20 cigarettes in March 1994.

The Canadian tobacco industry is awaiting a decision by the Supreme Court of Canada regarding the challenge by Imperial Tobacco and RJR-Macdonald of the validity of the Tobacco Products Control Act (TPCA). The TPCA is a federal statute that bans all forms of tobacco trademark advertising and promotion in Canada. However, full corporate names can still be used in public representations that promote cultural and sporting events or that acknowledge the financial or other contributions made by the companies toward such an activity or event. Since the TPCA does not preclude spill-over advertising of foreign tobacco products, over time this restriction could be detrimental to the position of Canadian brands. The TPCA also governs the labelling and monitoring of tobacco products. Arguments were presented to the Supreme Court during the fourth quarter of 1994, and the final judgment is expected during 1995.

In April 1994, the federal government mandated the Standing Committee on Health to examine the legal implications and effectiveness of plain packaging of tobacco products in reducing both tobacco consumption and smuggling. In its June 1994 report, the committee asserted that plain packaging could be a reasonable step in the overall strategy to reduce tobacco consumption. The principal recommendations were that the federal government establish the legislative framework required to proceed with plain packaging, and that legislation be introduced if the results of a Health Canada study demonstrate that plain packaging will reduce consumption. The government of Canada issued its response to the committee's report in November 1994. While agreeing in principle with the recommendations, the Minister of Health deferred proceeding with legislation pending further study of the issue and the Supreme Court of Canada's ruling on the TPCA's validity.

It is difficult at this time to accurately predict what the implications of plain packaging would be for the industry. Imperial Tobacco believes that the implementation of plain packaging legislation would be another misguided effort to reduce tobacco consumption, and the government admits to the current lack of credible evidence to support this proposition. Rather, the plain packaging of Canadian cigarettes would facilitate their counterfeiting and perhaps render illegally imported cigarettes more appealing to the consumer, thereby re-igniting the contraband market. This could significantly affect economic activity in tobacco-related industries and result in job losses for tobacco growers, the tobacco manufacturing industry, the printing and packaging industries, distributers, and retailers. Furthermore, several briefs before the committee by international organizations have advised the government that the implementation of true plain packaging legislation would constitute an unfair expropriation of trademarks without compensation, which would violate international conventions and trade treaties to which Canada is a party.

Other restrictive measures were enacted in 1994 at both the federal and provincial levels. In September 1994, the Canadian tobacco manufacturers incurred considerable expense to implement federal government regulations which required that stronger and more prominent health warnings be printed in black and white on the principal display panels of cigarette packages. During 1994, Nova Scotia, New Brunswick, Newfoundland, Ontario, and British Columbia amended existing legislation or adopted new legislation imposing restrictive measures covering the packaging, sale, distribution, and consumption of tobacco products. In Ontario, new legislation to prohibit the sale of tobacco products in drugstores and enable the provincial government to impose unique warnings on tobacco products sold in the province took effect January 1, 1995. Further, numerous provinces have required tobacco manufacturers to create unique markings identifying tobacco products for sale in their jurisdictions. While the industry has been able to negotiate reasonable timetables for implementing these changes, doing so will add to the cost and complexity of operations. An increasing number of municipal governments and private enterprises have also introduced restrictions on smoking, and anti-tobacco lobby groups continue to pressure governments at all levels to adopt more stringent regulations against smoking.

On January 13, 1995, a Statement of Claim in the name of three individuals was filed in the Ontario Court of Justice against Imperial Tobacco Limited and the two other major Canadian tobacco companies. The plaintiffs are seeking, among other things, to have the suit certified as a class action and to be awarded damages for losses said to be consequential to their alleged addiction to tobacco. Refer to Note 30 on page 52 for further details on the lawsuit. Imperial Tobacco will vigorously defend its position, and, although the lawsuit is at a very early stage and it is difficult to predict the outcome of lawsuits, the Corporation believes that Imperial Tobacco has a number of valid defenses.

The demise of the contraband market in 1994 yielded positive results for Imperial Tobacco. However, the gains realized in 1994 reflect a one-time readjustment of the marketplace. The positive impact of the February 1994 tobacco tax rollback should also affect comparative results for the first quarter of 1995. The outlook for the balance of 1995 is a return to the company's historical growth trends in earnings, assuming no further negative government initiatives. Imperial Tobacco plans to continue employing its strong Canadian trademarks and expertise to generate market share growth. Productivity initiatives will also continue. During 1994, the company completed a comprehensive activity-based management study, and benefits are expected to be realized commencing in 1995. By the end of 1995, Imperial Tobacco expects to substantially complete a significant information technology project initiated in 1994 to replace the majority of its application systems with a totally integrated suite of applications. The project entails a major restructuring of Imperial Tobacco's business processes and should permit flexibility and quicker response in addressing consumer needs and strategic business issues. The company will also invest approximately $118 million over a three- to five-year period in its manufacturing facilities to achieve higher productivity, better cost management, and greater flexibility in responding to market needs. The most significant benefits are expected to be realized commencing in 1996.

In the past, Imperial Tobacco has been able to mitigate the challenges faced by the industry through increased market share, price adjustments, and productivity improvements. Imperial Tobacco's

objective is to continue to grow earnings and cash flow through further advances in these areas and, over time, to develop non-Canadian sales.

CT Financial Services

Net earnings attributed to common shareholders for 1994 increased 35% over 1993. This recovery was attributable to increased net investment income and fee income, expense control, and lower provision for investment losses. Previous years' net earnings were adversely affected by high levels of non-performing investments and the resultant requirement for provision for investment losses. First Federal's contribution to net earnings in 1994 amounted to $47 million compared with $38 million in 1993. Fully diluted net earnings per common share increased 36% in 1994 to $1.64 from $1.21 in 1993. Return on fully diluted common shareholders' equity was 10.1% for 1994 compared with 7.9% in 1993, while net earnings as a percentage of average assets was 0.47% compared with 0.36% in 1993.

The principal business segments of CT Financial Services are financial intermediary services, asset management or fiduciary services, and real estate property investment. The majority of earnings is derived from financial intermediary services provided by Canada Trust in Canada and by First Federal in the United States. Revenues of CT Financial Services, as reported by Imasco Limited, were as follows:

	1994	1993	1992
		Millions of dollars	
Gross investment income	3,320	3,321	3,620
Fees	437	355	335
Other income	(3)	27	44
	3,754	3,703	3,999

Net investment income, the difference between revenue earned on investments and interest expense on deposits and borrowings, rose 6% during 1994 to $1.1 billion. Net investment income can be adjusted to a taxable equivalent basis to reflect the differing tax treatments accorded income derived from various types of investments. Management believes this provides a more meaningful comparison. On a taxable equivalent basis, net investment income was $1.2 billion in 1994, unchanged from 1993. Net interest rate differential or spread, the difference between investment income earned as a percentage of averaged investments and interest expense as a percentage of averaged interest-bearing liabilities adjusted to a taxable equivalent basis, was 2.37% in 1994 compared with 2.32% in 1993. The components of net investment income and the net interest rate differential in 1994 are detailed in the following table:

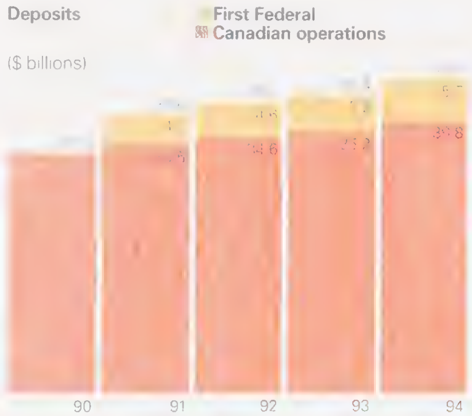
	Average balance	Income/ expense	Average rate
		Millions of dollars	
Investments	45,849	3,412	7.44%
Deposits and borrowings	43,511	2,205	5.07%
		1,207	2.37%

The change in net investment income from 1993 caused by variations in volume and rate is detailed as follows:

	Volume	Rate	Net
		Millions of dollars	
Investments	100	(109)	(9)
Deposits and borrowings	63	(129)	(66)
	37	20	57

At Canada Trust, spread increased during 1994 despite competitive pricing pressures and balance sheet mix changes. Canada Trust's 1994 net interest rate differential was 2.34% compared to 2.27% the previous year. During the first half of the year, the differential rose due to a favourable interest rate environment. Rising interest rates caused a shift in customer preference to long-term deposits in the second half of the year which contributed to a decline in the differential. The differential earned in the first half of the year offset the decline in the second half and resulted in the full-year differential increasing over the previous year. First Federal's 1994 net interest rate differential was 2.53% compared with 2.55% last year. The spread was lower, primarily due to lower rates earned on adjustable-rate mortgages. First Federal originates both fixed and adjustable-rate mortgages and sells fixed-rate mortgages after origination.

Personal lending operations are funded primarily with retail customer deposits. Total deposit growth was $2.1 billion or 5% in 1994 compared with $1.2 billion or 3% in 1993. Low interest rates throughout 1993 caused consumers to shift funds on deposit to higher yielding investments such as mutual funds. During 1994, rising interest rates resulted in a migration back to term deposits with the portfolio increasing 12% by year-end. Demand deposits declined as rates of return for consumers on demand balances remained low throughout



1994. RSPs and RIFs grew by 2% in 1994, compared with 3% in 1993. At December 31, 1994, virtually all of Canada Trust's deposits were from Canadian retail customers. The other principal liabilities were Canadian dollar Eurodebentures, domestically issued convertible debentures, term deposit receipts, Receiver General of Canada balances, and clearing balances. Canada Trust's deposits were $36.8 billion at December 31, 1994 with an average cost of funds of 5.08%. In August 1994, Canada Trustco Mortgage Company (Canada Trustco) issued $150 million subordinated capital debentures. These debentures are considered capital for purposes of federal capital adequacy reporting. At December 31, 1994, virtually all of First Federal's deposits were from U.S. retail customers. As well, First Federal borrows from the Federal Home Loan Bank (FHLB) at a cost of funds typically lower than treasury rates. Deposits of First Federal were $5.7 billion at year-end with an average cost of funds of 3.30%. First Federal's average cost of total funds, including FHLB, was 3.83%.

Cash, short-term notes, and short-term government bonds are used to meet liquidity requirements. During 1994, cash and short-term notes increased by $473 million, and short-term government bonds decreased by $189 million. Short-term government bonds represented 30% of securities at year-end. Securities, other than short-term government bonds, substantially consist of high quality shares, long-term government bonds, and mortgage-backed securities (MBS). Long-term securities are intended to be held to maturity. The average return on the securities portfolio for 1994 was 6.86%. First Federal holds a large portfolio of MBS consisting of securities backed by mortgages guaranteed by U.S. federal government agencies.

These securities are highly liquid in the U.S. secondary market and are considered low risk. Investment in securities was $1.6 billion at December 31, 1994.

Residential mortgages represented 53% of total investments at December 31, 1994. Growth in residential mortgages was 10% during 1994 compared with 6% in 1993. Residential mortgages generally earn a lower rate of return than commercial mortgages, but have a lower credit risk profile. Actual losses on residential mortgages as a percent of portfolio on average for the last five years was 0.11%, significantly lower than average losses on all other loan portfolios. The average return on residential mortgages during 1994 was 7.73%. Commercial mortgages declined 11% during 1994, as lending activities were refocused on the residential segment of the mortgage market. During the year, underwriting for all Canada Trust commercial mortgages was centralized in order to apply uniform credit rating review and granting procedures. First Federal's mortgage portfolio at December 31, 1994 was $6.5 billion. Mortgage originations were consistent with 1993 volumes at $2.8 billion, comprised of 79% adjustable-rate residential mortgages and 21% fixed-rate residential mortgages. During 1994, $0.8 billion of fixed-rate mortgages were sold in the secondary market on a servicing retained basis. Fees earned on these mortgages are included in service fees.

All other loans and leases grew 9% over 1993. Personal loans, including PowerLine, grew 16% to $6.2 billion at year-end. Credit card receivables grew $161 million during the year, with significant growth in the number of Gold MasterCards and Gold Plus MasterCards [illegible]. Stringent credit scoring standards reduce the risk on credit card receivables.

Corporate loans and leases represented 4% of total loans at year-end. Canada Trust participates in loans and originates loans to corporations and crown corporations that are rated A or better, based on the definitions and criteria for rating used by an "Approved Rating Organization" as defined by National Policy Statement 47.

Real estate investments held by Truscan are intended as long-term investments. Total revenue from investment properties was $124 million in 1994. The vacancy rate at year-end was 10.1%, up from 9.8% at year-end 1993.

Provision for investment losses is the amount charged to earnings to increase the allowance for investment losses to required levels. In 1994, the provision for investment losses was $140 million, down from $205 million in 1993. The apportionment of the provision for investment losses among investment categories was as follows:

	1994	1993	1992
		Millions of dollars	
Loans			
Mortgages – residential	22	38	34
Mortgages – commercial	37	66	29
Corporate	65	12	112
Credit card receivables	8	–	16
Other	5	16	19
Securities	5	66	18
Real estate acquired in settlement of loans	(2)	7	8
	140	205	236

The provision for investment losses in Canadian operations was $115 million in 1994, compared with $170 million in 1993, while First Federal's provision for investment losses was $25 million in 1994 compared with $35 million in 1993.

Specific allowances for investment losses are taken on an investment-by-investment basis, where practicable. A general allowance for each category of investment is maintained based on historical loss experience for that portfolio. In addition, economic conditions and other factors are considered in calculating general allowances. Criteria for calculating the allowance for investment losses are set out on page 37, and the apportionment of the allowance among investment categories and between specific and general is contained in Note 6 on page 45.

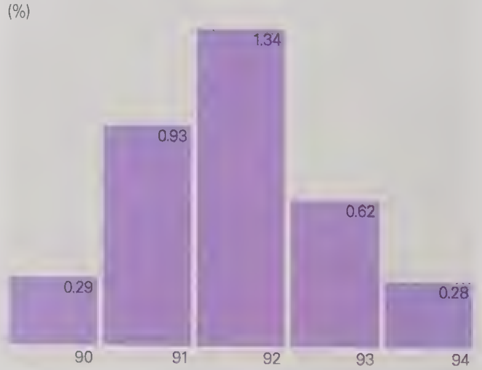
The allowance was charged with investment losses and write-offs of $143 million in 1994, consisting primarily of commercial mortgages, corporate loans, and preference shares, and credited with recoveries of $19 million. This compares to a charge to the allowance of $246 million in 1993, primarily for commercial mortgages and preference shares, and recoveries of $47 million.

At December 31, 1994, the allowance for investment losses represented 73% of outstanding non-performing investments, up from 55% at December 31, 1993. First Federal's allowance for investment losses was $55 million at year-end. Its general allowance was $38 million at December 31, 1994, compared with $46 million in 1993, while the specific allowance was $17 million, down from $24 million one year earlier. Certain statistical information with respect to the allowance for investment losses is set forth in the following table:

	1994	1993	1992
Allowance for investment losses (in millions of dollars)	372	350	342
As a % of investment losses	300%	176%	349%
As a % of non-performing investments	73%	55%	37%
As a % of total investments	0.77%	0.77%	0.78%

Total non-performing investments were $509 million at December 31, 1994, a decrease of 20% from December 31, 1993, and are detailed in Note 5 on page 45. Carrying values of investments classified as non-performing are reduced by an allowance for investment losses upon determination that such values exceed the estimated net realizable value of these investments. A description of circumstances that lead to an investment being declared non-performing is detailed on page 37. In both Canada and the United States, stronger business and consumer activity translated into a sharp decline in the level of non-performing investments. As well, First Federal sold $41 million of net non-performing investments in 1994. Non-performing investments, net of the allowance for investment losses, represented 0.28% of total investments and 6% of consolidated shareholders' equity of CT Financial Services at year-end, compared with 0.62% and 13%, respectively, at December 31, 1993. On average, net non-performing investments of the six largest Schedule I banks

Net non-performing investments as a percentage of total investments
(%)



as a percent of total investments for 1994 was 1.22%. Canada Trust's non-performing investments were $450 million at December 31, 1994, an 11% decrease from 1993, while net non-performing investments were $133 million and represented 0.34% of total investments. First Federal's non-performing investments totalled $59 million at December 31, 1994, down from $130 million at 1993. Net non-performing investments were $4 million at December 31, 1994.

Personal trust fees are earned by providing investment management and planning services to individuals and trustees. As well, fees are earned for advisory services such as will and estate planning, income tax, and administration of self-directed RSPs. Mutual fund fees are earned as a percent of funds under administration. Mutual fund fees earned in 1994 were 97% higher than fees earned in 1993. During 1993, the amount of money invested in mutual funds in Canada grew rapidly, with Canada Trust's share of that market reaching 3% by December 31, 1993. Canada Trust's share remained at 3% throughout 1994. Demand for funds was high in the first few months of 1994, with fund balances growing 38% in the first quarter of the

year. Rising interest rates caused market values of mutual funds to decline, which resulted in investors moving out of mutual funds for the balance of the year. As a result, fund assets under administration grew 23% during 1994. During 1994, pension assets under administration grew 19%, compared with a 27% increase during 1993, and pension trust fees grew 20% and 5%, respectively. Service fees, which are earned primarily from financial intermediary services, increased 18% during 1994 to $250 million.

CT Financial's share of the earnings of CB Commercial Real Estate Group Canada Inc. and Coldwell Banker, as well as net gains and losses on sales of securities, are included in other income. During 1994, the value of specific real estate investments was written down by $10 million, where market value was assessed at lower than book value. This write-down, together with net securities losses realized in 1994, contributed to the decrease in other income during the year.

Operating expenses during 1994 increased 8% or $81 million over 1993. The largest component of operating expenses is salaries and benefits. The number of full-time equivalent employees at December 31, 1994 was 5% lower than at 1993. Salaries and benefits expense included severance payments of $14 million and $3 million paid to eliminate the executive stock option plan. This plan has been replaced with a long-term incentive plan based on return on common shareholders' equity. Operating expenses included $10 million in expenses for Meridian Securities International Limited, which was acquired in January 1994. Deposit insurance increased 39% over 1993. Occupancy cost rose 2%, reflecting 20 net new financial services branches and 218 new ABMs in Canada and the United States, including 50 drive-thrus in Canada.

Pre-tax earnings in 1994 were $333 million compared with $232 million in 1993, an increase of 44%. This amount represents the earnings from operations of CT Financial Services reported by Imasco. CT Financial's statutory income tax rate for 1994 was 44.3%. The statutory rate is reduced by income from certain investments that is not taxed, such as income from shares of Canadian corporations and income debentures, and by income earned in foreign jurisdictions to which lower tax rates apply. CT Financial's effective income tax rate for the year was 30.3%, compared with 24.1% in 1993.

CT Financial's philosophy is to identify and avoid or minimize risks that could have a negative impact on assets and net earnings.

Interest rate risk is the risk that interest rate changes might adversely affect current and future earnings. A movement in interest rates affects net investment income when the change in cost of funds does not coincide with the change in the yield on investments. As well, changes in interest rates can cause a movement in funds and/or assets to different terms. If volume shifts of funds and assets do not coincide, future earnings and cash flows can be affected. Interest rate risk is monitored primarily through reporting structures that categorize all investments, interest-bearing liabilities, capital, and relevant cash flows associated with these instruments by the dates at which interest rates reset. The difference between the values of investments and interest-bearing liabilities and capital resetting in any one period is called a mismatch. The cumulative mismatch is the sum of all mismatch amounts. The cumulative mismatch for all periods less than one year, a standard measure of interest rate risk management, was $(1,371) million for CT Financial Services.

Interest rate risk is managed by treasury operations that are administered independently by Canada Trust and First Federal. To limit interest rate risk, Canada Trust manages its assets and liabilities to ensure that random fluctuations in interest rates do not adversely affect net investment income. Exposures are actively managed through retail product strategies, the use of derivative financial instruments, investment strategies, and other capital market alternatives. Some products are specifically hedged, when appropriate. Canada Trust identifies, monitors, and analyzes interest rate sensitivity through duration analysis, analysis of float rate and short-term asset and liability price exposures, comprehensive cash flow matching, and monitoring of exposures across the yield curve. Simulation modelling is used to measure the volatility of net investment income to yield curve exposures over a range of interest rate environments. The corporate investment policy committee sets policy, monitors overall performance, and approves interest rate risk management objectives.

First Federal uses income simulation and market value of portfolio equity calculations to assess interest rate risk. First Federal's strategy is to maintain risk within acceptable levels while providing opportunity to take limited advantage of market conditions. First Federal manages net investment income while keeping risk within strict guidelines. Long-term focus on interest rate risk management has the objective of lowering volatility in net interest income.

Liquidity risk is the possibility of not being able to meet depositors' demands for funds or borrowers' requirements for credit advances. It is controlled by maintaining readily cashable securities and by managing the maturity structure of loans and deposits to ensure adequate cash flow. Monitoring and reporting systems ensure that appropriate action is taken when declines in liquid assets occur. Liquidity is managed separately by Canada Trust and First Federal. Both operating entities have a policy to maintain a specified amount of liquid assets above minimum amounts required by statute.

Management of CT Financial Services expects earnings in 1995 to provide sufficient cash flow to fund capital expenditures, payment of amounts due on notes, mortgages and debentures, and payment of dividends. There are no anticipated or known restrictions on CT Financial Services' ability to declare or pay dividends in the future.

Credit risk is the risk of not receiving full payment of principal when an investment is due, as well as the risk of not receiving the full amount of income expected throughout an investment's term. This risk is controlled through strict lending and investment criteria, as well as limits on exposure to individual borrowers. Credit committees review commitments, and the Board of Directors of CT Financial Services reviews and approves all major investments. Management provides what it considers adequate allowances against all known potential credit risks, and these allowances are reviewed quarterly by the Audit Committee of CT Financial Services' Board of Directors. Credit risk is also managed through diversification, which is achieved by investing in a variety of assets and a variety of geographic regions. Diversification is also achieved by enlarging the number of borrowers, limiting the amount loaned to any one borrower or related group, lending against various types of security, and lending in a variety of industrial sectors.

Foreign exchange risk occurs when changes in revenues and expenses or assets and liabilities in currencies other than Canadian dollars are not matched. Foreign exchange risk is managed through daily matching of currency positions.

Derivative financial instruments are used to manage overall interest rate and foreign exchange risk. They are also used to manage risks associated with innovative products issued with embedded features such as early redemptions and interest rate options. CT Financial Services does not enter into contracts as an intermediary to earn fee income. Derivative financial instruments used by CT Financial Services include interest rate swap contracts, interest rate options, forward rate agreements, forward currency contracts, cross currency swaps, and options on Eurodollar futures contracts. Risk-weighted value of derivative financial instruments is based on regulatory requirements to hold capital against a portion of the notional amount, plus the fair market value of a derivative. The risk-weighted value is the sum of a positive fair market value, plus the product of the notional amount of the derivative and a credit risk conversion factor specified for that type and term of contract, discounted by a factor defined by the Office of the Superintendent of Financial Institutions (OSFI) to reflect the creditworthiness of the counterparty. The fair market value of a derivative financial instrument is the present value of expected future cash flows and also represents the cost of replacing a contract at the date fair market value is determined. The credit risk inherent in any derivative financial instrument results from the possibility of a counterparty being unable to fulfill its obligations under the terms of a derivative contract. The credit exposure amount is the potential decrease in earnings should a counterparty default. Credit exposure can be measured by the cost of replacing the contracts at current market rates. Credit exposure is controlled by limiting available counterparties to those of high quality; this is determined by assigning a long-term debt rating to a counterparty, based on the definitions and criteria for rating used by "Approved Rating Organizations" as defined in National Policy Statement No. 47. Nominal values, risk-weighted values, fair market values, and the credit exposure of CT Financial Services' derivative financial instruments are set out in Note 13 on page 47.

Regulatory risk is the risk of regulators imposing new constraints on business growth. Changes in taxation policy can affect earnings, as can the imposition of exchange controls or withholding taxes. In addition, change or lack of change in governing legislation can affect competitive position in various markets. Careful planning and the ability to respond quickly to changing circumstances limit the impact of regulatory risk.

The Canadian regulated companies, Canada Trustco and The Canada Trust Company, are required to comply with standards for sound business and financial practices set by the Canada Deposit Insurance Corporation (CDIC). Compliance with these standards is a prerequisite to receiving deposit insurance coverage. CDIC standards promote prudent management of credit and other risks associated with lending and securities portfolios, use of real estate appraisals, liquidity, changes in interest rates, foreign exchange, capital management, and internal controls. Starting in 1995, management and the Board of Directors of CT Financial Services will be required to file reports with OSFI and with CDIC on compliance with the standards. Compliance with CDIC standards is monitored by OSFI.

Investment activities of the Canadian regulated companies and their subsidiaries are regulated by both federal and provincial statutes. Federal legislation for trust and loan companies provides the Canadian regulated companies with full powers to make prudent investments on virtually the same basis as banks. Guidelines issued by OSFI, and standards of sound business and financial practices developed by CDIC provide a framework for prudent management of investment and lending portfolios.

Federal legislation permits companies to engage in commercial lending, subject to the approval of the Superintendent of Financial Institutions. The Canadian regulated companies have received approval to make or acquire commercial loans without a predetermined limit. Commercial loans, as defined in legislation, constituted 9% of consolidated assets of Canada Trustco at December 31, 1994. Federal rules restrict the provision of financing for real estate acquisition, development, and construction projects. Investments in interests in real property and in certain defined equity investments, including common shares of corporations and ownership interests in unincorporated entities, are each limited to 70% of capital and to 100% of capital in aggregate. As Canada Trustco's interests in real property were 58% of capital at December 31, 1994, future acquisitions will be limited by growth in capital.

The Loan and Trust Corporations Act (1987) (Ontario) contains a prudent investment standard and limits the portion of total assets that may be invested in certain types of assets, including personal loans, commercial loans, corporate securities, common shares, real estate, and certain subsidiaries. Amendments to the Ontario legislation, which are expected to take effect early in 1995, will replace these provisions with provisions similar to the federal guidelines described above. First Federal is subject to similar investment limitations under U.S. legislation. U.S. savings and loans must meet a Qualified Thrift Lender test, which requires the maintenance of at least 70% of assets in qualifying investments. At December 31, 1994, this ratio was 94%. First Federal is deemed to be adequately capitalized by the Federal Deposit Insurance Corporation (FDIC) and the Office of Thrift Supervision (OTS).

Federal legislation requires Imasco to decrease its beneficial ownership position in Canada Trustco's voting shares from approximately 98% to a maximum of 65% by June 1, 1997. Various strategies are under consideration, but no immediate action is planned.

The federal government must introduce legislation before June 1997 to re-authorize financial institution statutes. A review of 1992 federal reforms is currently under way. Federal legislation is expected in 1995 to make further changes to deposit insurance and related supervisory matters.

An issue that will come before the U.S. Congress in 1995 is the deposit insurance premium level for banks and savings associations. Whereas the Bank Insurance Fund will be fully capitalized in 1995, the Savings Association Insurance Fund is not projected to be fully capitalized until well into the next century. Pursuant to existing legislation, the minimum deposit insurance premium paid by banks could be reduced by 10 to 15 basis points from its current level of 23 basis points. This would result in substantial disparity between premiums paid by banks and savings associations, creating a competitive advantage for the banks. Various proposals have been made to address this issue and to maintain parity between banks and savings associations.

Capital funds provide a foundation for future growth, protect against losses, and serve as a basis for accepting deposits and for expanding credit services. Capital funds are generated internally from earnings once expenses, income taxes, and dividends have been paid. Capital funds are generated externally from the sale of securities to investors. Management of CT Financial Services has the dual responsibility of obtaining adequate capital and earning a satisfactory return on it. Capital adequacy maintains investors' and depositors' confidence in the stability of CT Financial Services and is determined by management prudence and business conditions. Capital funds in CT Financial Services totalled $2.3 billion at December 31, 1994, comprised of $1.98 billion of common shareholders' equity and $363 million of preference share equity. Common share capital and retained earnings constituted 85% of capital funds at year-end. Additional funds are available to CT Financial Services and Canada Trustco through conversion of convertible debentures into preference shares.

The Canadian regulated companies are subject to federal capital guidelines similar to those applied to Canadian chartered banks, and to provincial regulations that prescribe minimum capital requirements. There are two federal measures of capital adequacy. The risk-weighted capital ratio is based on standards developed by the Bank for International Settlements (BIS) as a common international measure of capital adequacy. The standards define acceptable types and levels of core and secondary capital and weight assets by credit risk. Canadian trust and loan companies are required to meet a minimum risk-weighted capital ratio of 8%. Although not a rate-regulated company, CT Financial Services had an estimated risk-weighted capital ratio of 11.18%, based on BIS guidelines for Canadian trust and loan companies. The following table sets out the risk-weighted capital ratios of Canada Trustco:

	1994	1993	1992
		Millions of dollars	
Risk-weighted assets			
On balance sheet	19,481	18,991	20,380
Off balance sheet	35	17	5
	19,516	19,008	20,385
Qualifying capital			
Tier 1	1,582	1,378	1,382
Tier 2	424	427	279
	2,006	1,805	1,661
Capital ratios			
Tier 1	8.10%	7.25%	6.78%
Tier 2	2.18%	2.25%	1.37%
	10.28%	9.50%	8.15%

The second capital adequacy standard is the multiple of total adjusted assets to qualifying capital. It is limited to a maximum of 20 times, unless OSFI approves a higher level. The Canadian regulated companies have each been permitted to maintain a multiple not in excess of 22 times, provided that total risk-weighted capital ratio is at least 9.5%. Canada Trustco's total asset to capital multiple was 19.6 times at December 31, 1994.

Borrowing powers of the Canadian regulated companies are limited by certain provincial statutes that prescribe the maximum borrowing multiples, calculated as defined borrowings, divided by defined capital. Each jurisdiction has different definitions of borrowings and capital. At December 31, 1994, the Canada Trustco borrowing multiples under Ontario and Québec guidelines were 22.0 and 21.0, respectively, compared with 21.4 under both guidelines in 1993.

Regulatory capital requirements for U.S. savings and loan companies are established and enforced by OTS. The Financial Institutions Reform, Recovery and Enforcement Act requires the OTS to institute uniform capital standards to satisfy three separate tests: a tangible capital standard, a leverage ratio or core capital standard, and a risk-based capital standard. OTS is required to ensure that these standards are no less stringent than those required of U.S. national banks. Under these standards, First Federal is considered to be adequately capitalized.

The creditworthiness of the securities of CT Financial Services is reviewed regularly by the Canadian Bond Rating Service (CBRS) and the Dominion Bond Rating Service (DBRS). CT Financial Services' ratings at December 31, 1994 were as follows:

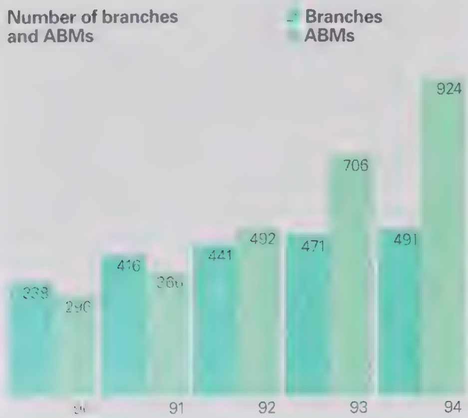
	CBRS	DBRS
Short-term debt instruments	A-1+	R-1 (middle)
Convertible debentures	A (high)	AA (low)
Senior preference shares	P-1	Pfd-1
Non-cumulative preference shares	P-2	Pfd-1 (low)

Inflation in Canada is expected to remain among the lowest of developed countries. The Bank of Canada has reinforced its position to utilize monetary policy to ensure price stability, should fiscal policy measures to control the burgeoning deficit not have this effect. In the United States, the Federal Reserve Board is expected to continue its policy of increasing interest rates in order to control inflation. Low inflation and volatile interest rates have complex effects on financial institutions. These factors can lead to material changes in customer borrowing and investing decisions. In addition, financial institutions have developed new products with more complex options to meet customers' growing needs. The effects of these changes are controlled through close attention to asset/liability management and hedging activities.

CT Financial Services' strength remains its ability to attract and serve its retail customers. Its primary focus is retail banking and meeting customers' growing needs for a wide range of personal financial and wealth management services. The integration of personal wealth management services into the sales-oriented retail delivery network is expected to further leverage the highly productive distribution system. The intent is to continue to selectively expand the retail branch networks, both in Canada and the United States, while focusing on expansion of alternate delivery systems such as ABMs, drive-thru facilities, and telephone and home banking.

Financial intermediary services will continue contributing the largest share of earnings for the foreseeable future. Accordingly, factors influencing revenue generation and cost control in intermediary operations will continue to have the greatest impact on corporate profitability.

Emergence from the recessionary economic environment has had a positive effect on reducing CT Financial Services' non-performing in-



vestments and provision for investment losses. CT Financial Services will continue its conservative approach to prudent credit risk management by improving its coverage ratio of the allowance for investment losses over non-performing investments.

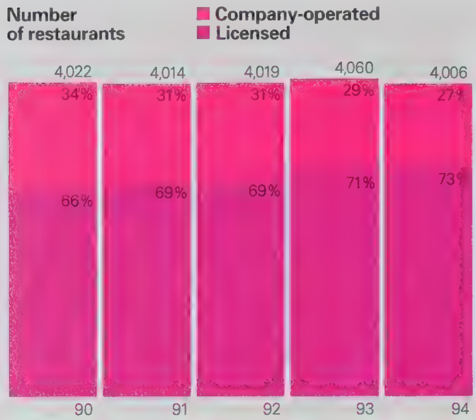
With consumer and business confidence replacing the pessimism of the recent recession, steady economic growth is expected through 1995. The combination of cost control, maintenance of low interest rate risk and credit risk profiles, and stronger growth will provide the basis for increased earnings.

Hardee's Food Systems

System sales, which include the sales of company-operated and licensed restaurants as well as third-party sales of Hardee's manufacturing and distribution arm, Fast Food Merchandisers (FFM), declined 2% during 1994 to US $4.8 billion. The decline is partly due to a net reduction of 54 restaurants during the year. Average unit sales volume (AUVs) for all system restaurants decreased to US $1,007,000 in 1994 from US $1,016,000 in 1993, and on a comparable restaurant basis AUVs declined 3.9%. The decline in sales also reflects the impact of heightened competitive pricing activity that dominated the industry, as well as the continued expansion of competitors with low-price menu offerings. In the third quarter, Hardee's offered price promotions on certain products and new menu items. As a result, the rate of sales decline moderated in the fourth quarter. On a comparable restaurant basis, AUVs for restaurants operating under the Hardee's banner declined 3.7% during 1994, while those of the Roy Rogers restaurants declined 5.0%. However, over the course of the year Roy Rogers' AUVs improved considerably. During the first quarter of 1994, Roy Rogers' sales suffered significantly due to the severe winter in the Northeast, but in the fourth quarter, AUVs and transactions were above prior year levels. The improvement reflects a new advertising campaign and the return in September of freshly cooked roast beef to Roy Rogers restaurants in Baltimore and Washington. The gains were more evident in company-operated Roy Rogers restaurants, which were quicker to adopt the roast beef product than the licensed restaurants.

Sales of FFM increased slightly during the year, as the impact of lower AUVs by Hardee's licensees and lower commodity prices was more than offset by the addition of new customers and products. In 1994, approximately 77% of Hardee's and Roy Rogers licensed restaurants purchased some or all of their requirements for food, paper, and cleaning products from FFM, a figure unchanged from 1993. In addition, FFM's manufacturing facilities supplied approximately 73% of Hardee's and Roy Rogers requirements for hamburgers in 1994, compared with approximately 88% in 1993. The decline reflects the company's decision to purchase and distribute rather than manufacture certain hamburger products.

Hardee's continues to focus on improving the overall quality of the restaurant system. During 1994, 171 new Hardee's restaurants were opened, 141 under-performing restaurants were closed, and 84 Roy Rogers restaurants in the Philadelphia area were sold. In April 1994, Hardee's announced an agreement whereby Heartland Food Systems (Heartland) purchased 165 Hardee's restaurants, 61 from Hardee's and 104 from a licensee, and is undertaking to convert most of its 52 Rax restaurants to the Hardee's concept. Heartland also entered into a development agreement with Hardee's which calls for opening more than 100 additional Hardee's units in Ohio during the next six years. This transaction provides Hardee's with increased



presence and a vehicle for expansion in the Ohio market, and it makes Heartland the third-largest Hardee's licensee. As at December 31, 1994, the system consisted of 2,920 licensed and 1,086 company-operated restaurants compared with 2,863 and 1,197, respectively, a year earlier. The company also continues to pursue its strategy of increasing the proportion of licensed restaurants in the system to 75%. At December 31, 1994, licensed restaurants represented 73% of the total system, compared with 71% a year earlier.

Hardee's revenues are detailed on page 59. Sales of company-operated restaurants declined as a result of the reduction in the number of restaurants and the lower AUVs. On a comparable restaurant basis, AUVs of company-operated restaurants declined 4.0%, principally due to the competitive environment; the AUVs of Hardee's restaurants declined 3.8%, while those of Roy Rogers restaurants declined 4.5%. Service and licence fee revenues increased during 1994 due to an increase in the number of licensed restaurants and an improvement in the rate of fee recognition.

Earnings from operations rose to US $97 million during 1994 from US $67 million in 1993. However, the comparability of these amounts is affected by two significant transactions. During the fourth quarter of 1993, a non-recurring charge of US $18 million was recorded with respect to the sale of Roy Rogers restaurants in Philadelphia (refer to Note 27). Also, in April 1994, Hardee's purchased the 50% interest it did not own in a partnership holding the land and buildings of 279 company-operated Hardee's restaurants (refer to Note 26) previously subject to a sale and leaseback arrangement. The principal impact of the purchase transaction on earnings was to reduce occupancy expense while increasing depreciation expense and interest expense. Earnings from operations during 1994 increased by approximately US $11 million as a result. Adjusting for the two non-recurring events, earnings from operations in US dollars increased 2% during 1994. The benefits of continued improvement in cost controls, reduced commodity prices, and higher royalties offset the impact of the sales decline. Earnings from operations of FFM during 1994 were ahead of last year.

Canadian dollar operating results of Hardee's, detailed on page 14, are affected by fluctuations in exchange rates. During 1994, the

Canadian dollar weakened in relation to the US dollar, to the benefit of Hardee's Canadian dollar results. Exchange rate risk is managed from an overall perspective by Imasco and is discussed in greater detail on page 41.

As illustrated by 1994 results, competitive threats pose a considerable challenge to Hardee's. These are primarily on two fronts: pricing strategies, as industry participants vie for customer traffic in a mature industry, and market penetration strategies, as competitors expand their presence in small towns, an area of historical strength for Hardee's. Overall economic conditions also affect industry performance. Low levels of consumer confidence and disposable income growth in recent years have led to the aggressive price competition that dominates the industry. Low inflation rates minimize the ability of industry participants to raise prices. Labour costs may come under pressure in 1995 as a result of tightness of labour supply. With this environment as a backdrop, Hardee's has taken a more aggressive stance in the area of value pricing. The approach is expected to be maintained and refined in 1995.

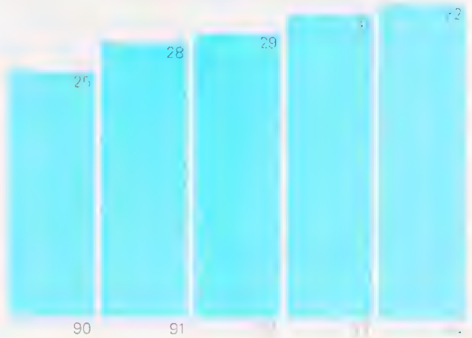
During 1994, Hardee's commenced a strategic review of its competitive positioning and unit economics. As a result, Hardee's has now better defined the consumer segments it wishes to pursue, the image of Hardee's it wants those consumers to perceive, and the specific actions required to establish the desired image. Hardee's positioning strategy is intended to build upon its strengths, particularly in menu variety, and will focus on the attributes of taste, choice, and freshness. A key advantage of Hardee's is its ability to compete effectively at each of the three mealtimes, and the company intends to better exploit this advantage. In 1995, Hardee's will be undertaking an extensive testing program to determine the best way to implement the repositioning. Hardee's has successfully reduced its controllable costs in recent years, and these efforts will be extended into 1995. Operating performance in 1995 will depend upon the impact of competitive pricing strategies, general economic conditions, and the extent to which Hardee's benefits from revising its competitive positioning.

Hardee's is cautiously optimistic about its prospects for 1995 and anticipates growth in sales and earnings from operations.

Shoppers Drug Mart/Pharmaprix

System sales increased 2% in 1994 to $3.2 billion. On a comparable store basis, which excludes the impact of stores opened or closed during the year, sales increased 1.2% overall and 3.4% excluding tobacco products. The sales increases were achieved despite little or no inflation in most product categories, deflation in some product categories, and a competitive retail environment that intensified during 1994 with the entry in Canada of Wal-Mart Stores Inc. and the proliferation of dispensaries in other retail chains. The average sale per customer decreased 2.5%, and the number of customer transactions increased 3.8%; both amounts were affected by a change in the method of reporting lottery transactions, which are now included in transaction counts. The average sales volume per store was $4.7 million in 1994, unchanged from 1993, and the average sales per square foot was $798, compared with $801 in 1993. Prescription sales increased 3.2% on a comparable store basis during 1994, compared with 7.3% in 1993. The 1994 increase reflects higher pharmaceutical prices and increased prescription counts. During 1994, prescription sales represented 32% of total sales, compared with 31% in 1993. The rollback of tobacco taxes by the federal government and certain provincial governments in February 1994 resulted in increased unit sales of tobacco products, as volume was recovered from the contraband trade. However, the dollar value of sales declined due to lower selling prices. On a comparable store basis, tobacco sales declined 15.4% in 1994, compared

Prescription sales as a percentage of total sales
(%)



with a 20.8% decline in 1993. The continued focus on location quality resulted in the opening of 14 new stores during 1994 and the closure or sale of 15 locations, for a net decrease of one store. Stores numbered 689 at December 31, 1994.

Revenues increased 7% during 1994 to $193 million due to increased service fees and higher equipment rental and other income from associates. The increase in revenues resulted in higher earnings from operations, which rose 2% to $102 million. Gross margins decreased slightly during 1994, primarily due to the competitive environment and continuing downward pressure on prescription gross margins. The company continues to emphasize the development of higher margin corporate brand products to counteract gross margin pressures. Sales of corporate brand products increased approximately 25% during 1994 and represented approximately 12% of
ding prescriptions and tobacco, compared with 10% in 1993

Government intervention impacts significantly on the business of the company. In recent years, provincial governments have attempted to control rapidly rising health-care costs by implementing measures such as reduced drug coverage, reduced compensation to phar-macies, and the sharing of costs with users. Each negatively affec the company's earnings. Employers who sponsor drug plan have likewise taken measures to control employee health-ca Other government policies are also significantly affecting the pany's business. For example, the Ontario government has passe islation prohibiting the sale of tobacco products in pharma and in stores having pharmacy departments, effective January Other provinces are considering similar legislation. The compan is focusing on expanding merchandise categories in order to off the impact of lost tobacco sales.

Competition continues to be a serious issue in traditional drugstore categories such as prescriptions, over-the-counter products, he and beauty aids, and cosmetics. The competition comes primarily from regional chains, independent drugstores, supermarkets, mass merchandisers, and food and drug combination stores. The entry of Wal-Mart into the Canadian market has heightened the level of competition and lowered industry margins. However, given the importance of location, convenience, and extended shopping hours to customers of Shoppers Drug Mart/Pharmaprix, approximately 500 of the company's stores appear to be outside the competitive range of the Wal-Mart stores and have felt little impact to date.

One of the company's ongoing strategies in response to this competition has been to increase the focus on customer service and convenience. During 1994, important initiatives in this area included the significant expansion of the number of extended-hour stores to 196 at year-end, the introduction of an enhanced customer service program at all stores, and the continued expansion of services such as retail postal outlets, lottery ticket sales, and automated teller

machines, all of which add to the company's appeal as a shopping destination. Shoppers Drug Mart/Pharmaprix has continued to reinforce its image as a leader in health care by expanding the company's *HealthWatch* pharmacy system and by participating in various programs promoting the health of its customers. In order to further protect and enhance Shoppers Drug Mart's image, 38 major store renovations and expansions were completed during 1994.

In anticipation of heightened competition, the company commenced a strategic planning initiative in 1993 with the objective of identifying how to increase productivity and lower its costs of operations. This process involved a thorough analysis of the company and other North American drugstore chains, focusing on purchasing and distribution systems, store structure and operations, and administrative functions. While the evaluation indicated that Shoppers Drug Mart/Pharmaprix has many areas of strength, it also revealed that the company's procurement, distribution, and labour costs exceed best-practice competitors and that important opportunities for improvement exist. During the second half of 1994, management began to execute an action plan that will be implemented over a three-year period ending in 1997. Pivotal to the plan is the movement away from store-level purchasing and from direct distribution to stores by suppliers to a centralized purchasing and distribution system. By leveraging the company's buying power, net product acquisition costs are expected to be lowered commencing in 1997. Central distribution will enable stores to better manage inventories, free shelf space for new products, and reduce labour costs associated with handling inventories. Further efficiencies will be achieved through the centralization of store and regional office accounting. The changes will require substantial investments in distribution facilities and information technology in the areas of category management, inventory control, warehouse management, and accounting. No restructuring charges are contemplated under this program.

The competitive retail environment and the effects of government intervention, particularly the prohibition of tobacco sales in Ontario drugstores commencing January 1, 1995, will cause the company's earnings to decline in 1995 from 1994 levels. The amount of the decline will be determined by the success of Shoppers Drug Mart/Pharmaprix at mitigating the loss of gross margin dollars due to the removal of tobacco products. Acquisition opportunities are likely to materialize as a result of these industry pressures and will be pursued, if attractive. Earnings improvement is expected in 1997, following implementation of the strategic planning initiative.

Genstar Development Company

During 1994, Genstar Development's revenues decreased 16% to $82 million, and this is the principal reason for the 19% decrease in earnings from operations. The number of single-family lots sold in 1994 decreased to 1,271 from 1,705 in 1993, and 214 acres were sold as parcels and raw land, compared with 38 acres in 1993. The earnings decline reflects the cyclical nature of the business and the absence of land acquisition in the late 1980s. Better-than-expected results have been realized in the regional markets of Calgary and the lower mainland area of British Columbia, where local economies are strong, and in Toronto, where the company has been able to market residential developments to meet consumer needs. This illustrates the success of Genstar Development's strategy to diversify its geographic base and reinforces the company's conservative management approach that has enabled it to operate successfully, even during less favourable economic periods. The company does not capitalize carrying costs and places significant emphasis on being a low cost producer.

Fundamental to long-term profitability and being a low-cost producer is the replenishment of inventories with reasonably priced land suitable for development. During 1994, Genstar Development acquired 215 acres in Waterloo, Ontario; 542 acres in Spokane, Washington; 9 acres in Woodbury, Minnesota; and a 50% interest in a joint venture owning 290 acres in Portland, Oregon. Current expansion plans are focused in the United States, reflecting the much broader range of investment opportunities available there at this time. The company continues to pursue joint venture opportunities that enable it to acquire an effective interest in developable land for a modest capital investment by leveraging its skill as a land developer. As at December 31, 1994, the carrying value of the company's investments in joint ventures, under the equity method, totalled $38 million.

The outlook for 1995 is for a slight reduction in earnings from operations. Improved revenues and earnings from operations are expected in 1996 and thereafter as a result of the maturing of projects initiated between 1991 and 1994.

The UCS Group

The UCS Group was profoundly affected by Wal-Mart's acquisition of Woolco Canada Inc. stores during 1994. The restructuring that ensued from the closure of 152 UCS tobacco and book shops in Woolco locations (approximately one-third of all UCS stores), as well as provisions for the closure of unprofitable stores and concepts, resulted in a one-time, pre-tax charge of $12 million to The UCS Group's 1994 earnings from operations. The company now consists of 250 stores in two core businesses, the convenience business and the travel-related specialty business. The restructuring activities distort the comparability of the company's results reported on page 18. However, including only continuing operations, The UCS Group reported a 1994 operating loss of $4 million on sales of $154 million, compared with a 1993 operating loss of $7 million on sales of $159 million. In its reorganized format, the company was able to generate a profit in the second half of 1994. On a comparable continuing store basis, sales were up 2.2% in 1994. Sales gains resulting from growth in Canada's tourism were offset by lower tobacco selling prices subsequent to the February 1994 tax rollback. The prohibition in Ontario of tobacco sales by drugstores and by stores having pharmacy departments, effective January 1, 1995, should benefit The UCS Group in that province. The objective is to achieve a modest profit in 1995.

(Management's Discussion and Analysis continues on page 39.)

Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Imasco Limited and its subsidiaries, and all information in the annual report, are the responsibility of management and have been reviewed and approved by the Board of Directors. The financial statements necessarily include some amounts that are based on management's best estimates, which have been made using careful judgment.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

In fulfilling its responsibilities, management of Imasco and its subsidiaries has developed and continues to maintain systems of internal accounting controls, including policies and procedures, and segregation of duties and responsibilities.

Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing the financial statements.

The Board of Directors carries out its responsibility for oversight and approval of the financial statements and other financial information in this annual report, principally through its Audit Committee. The Audit Committee, the majority of which consists of non-executive directors, meets periodically with management and with the internal and external auditors to discuss the results of audit examinations with respect to the adequacy of internal accounting controls, and to review and discuss the financial statements and financial reporting matters. Additional responsibilities of the Audit Committee are detailed under Corporate Governance on page 19.

The financial statements have been audited by Deloitte & Touche, Chartered Accountants, who have full access to the Audit Committee, with and without the presence of management. Their report follows.

Purdy Crawford

Purdy Crawford
Chairman and Chief Executive Officer

Raymond E. Guyatt, C.A
Executive Vice-President and
Chief Financial Officer

Denis Faucher

Denis Faucher, C.A
Vice-President and Controller

January 26, 1995

Auditors' Report

To the Shareholders of Imasco Limited

We have audited the consolidated balance sheets of Imasco Limited as at December 31, 1994, 1993, and 1992 and the consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended, appearing on pages 36 through 38, 40, 42, and 44 through 53. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1994, 1993, and 1992 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Montréal, Canada

January 26, 1995

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and all amounts are in Canadian dollars unless otherwise stated.

Basis of presentation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries. The Corporation indirectly owns approximately 98% of the common shares of CT Financial Services Inc. (CT Financial Services), which indirectly owns approximately 99% of the common shares of First Federal Savings and Loan Association of Rochester (First Federal) and directly owns approximately 75% of the common shares of Meridian Securities International Limited (Meridian Securities).

Fees – Financial Services

Fees are recorded as income over the term of the loan, or when the service is provided.

Licence and service fee income

Initial licence fees (Restaurant segment) are recognized as income upon the opening of a licensed restaurant. Continuing service fees (Restaurant and Drugstore segments) are recognized as income as a variable percentage of sales of licensed restaurants and associate drugstores.

Sale of development land

Income is recognized in the period in which the transaction occurs, provided the collectibility of sales proceeds is reasonably assured and all material conditions are met, including a cash down payment of not less than 15%.

Inventories

Raw materials and supplies are valued at the lower of average cost and replacement cost. Finished goods and development land are valued at the lower of cost and net realizable value. Cost is determined substantially as follows: Tobacco – average cost; Restaurant – first-in, first-out; Land development – specific item basis (cost of development land includes the original cost of properties and the cost of services such as roads, and sewage and water systems; carrying costs such as interest and property taxes are not capitalized); Other retail operations – retail inventory method.

Notes receivable, investments, and other

Notes receivable are stated at their estimated net realizable value. Securities are stated at cost and are written down to reflect impairments in value which are other than temporary. Investments in joint ventures and partnerships are accounted for using the equity method. Deferred charges are stated at cost, less accumulated amortization calculated on a straight-line basis.

Capital assets

Capital assets are accounted for at cost. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the principal classes of assets range from 20 to 40 years for buildings and from two to 20 years for equipment. The cost of leasehold improvements and property under capital leases is amortized on a straight-line basis over the lesser of the estimated useful lives of the assets and the term of the lease. Favourable leases (the fair market value allocated to leases acquired in a business acquisition with terms favourable to prevailing market conditions) are amortized on a straight-line basis over the term of the lease.

Goodwill

Goodwill and related costs arising from acquisitions are capitalized and amortized on a straight-line basis over their estimated lives, not exceeding 40 years.

Amortization of goodwill arising from the initial acquisition of CT Financial Services and the Corporation's operating companies, and from significant business acquisitions thereafter, is classified separately in the Consolidated Statements of Earnings as "Amortization of acquisition goodwill". Amortization of goodwill arising from minor business acquisitions by the Corporation's operating companies is reported under the caption "Operating costs."

Investments – Financial Services

Investments, which are reduced by an allowance for investment losses where applicable, and investment income are stated as follows:

Securities

Bonds, debentures, and mortgage-backed securities are stated at amortized cost plus accrued interest. Stocks, other than debt substitutes, are stated at cost plus dividends receivable. Any impairment in underlying value that is other than temporary is recorded as a charge to earnings in the year in which it occurs. Debt substitutes are stated at cost, plus dividends receivable, less provisions established to recognize diminution in market value, and are accorded the accounting treatment applicable to loans.

Loans

Mortgages are stated at cost, including capitalized and accrued interest, less repayments and unamortized mortgage discounts. Mortgage discounts are amortized over the term of the mortgage. Mortgages and mortgage-backed securities held for sale are stated at the lower of cost and market value. Consumer and collateral loans, corporate loans, and credit card receivables are stated at cost, including accrued interest, less repayments. Receivables under equipment leases are stated at gross rentals receivable, net of unearned income. Unearned income is reflected in earnings over the term of the lease. Earned income is accrued on a daily basis.

Real estate investment properties

Investment properties are stated at the lower of cost less accumulated amortization and estimated net recoverable amount. Development and resale properties are stated at the lower of cost less accumulated amortization and estimated net realizable value. Cost includes the original cost of properties and carrying costs incurred during development. Leasing costs are deferred and amortized on a straight-line basis over the initial lease term. Administrative expenses are not capitalized. Investments in unincorporated joint ventures are accounted for by the proportionate consolidation method of accounting. Earnings on the sale of investment properties are recognized when title passes to the purchaser. Earnings are recognized on the sale of land when all material conditions of the agreement have been fulfilled, an appropriate cash down payment has been received, and, in management's judgment, the purchaser has the financial resources to complete the transaction. On development projects, operating costs net of rents received are capitalized for a period not exceeding 24 months beyond the date of substantial completion, after which net rental income is recognized. Buildings

are amortized on a 5% sinking fund basis over periods of 30 and 50 years. Real estate acquired in settlement of loans is stated at a value which does not exceed estimated net realizable value.

Non-performing investments

Included in each investment category are non-performing investments. They consist of securities on which interest or preferred dividend payments have been suspended, loans in arrears, credit card receivables on which interest accrual has been suspended, and restructured and reduced rate loans. In addition, management may, at any time, classify a loan as non-performing if there is evidence of deterioration in the borrower's financial condition. Once loans are classified as non-performing, revenue is recognized only as collected, unless it is virtually certain that accrued interest will be collected.

Allowance for investment losses

The allowance for investment losses consists of two parts, a specific allowance and a general allowance, in accordance with the loan loss provisioning guidelines issued by the Superintendent of Financial Institutions. The two parts are calculated as: 1) a specific allowance for individual investments to reduce carrying value to estimated realizable value and 2) a general allowance based on a historical five-year net loss experience ratio for each of mortgages, consumer and collateral loans, corporate loans, and credit card receivables, and on economic conditions and other factors which, in management's judgment, deserve recognition. Each investment category has been reduced by the applicable portion of the allowance for investment losses. Allowance for derivative financial instruments, if any, is recorded in other liabilities. Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote.

Servicing rights – Financial Services

Capitalized mortgage servicing rights on mortgages sold as mortgage-backed securities are amortized over the estimated life of the mortgages. The estimated present value of the interest to be retained on mortgages sold, net of normal servicing fees, is recognized as earnings when the sale occurs. Purchased servicing rights are capitalized and amortized proportionately over the period of estimated servicing income.

Translation of foreign currencies

Foreign currency assets and liabilities are translated into Canadian dollars at the year-end rate of exchange, and revenues and expenses are translated at the rate in effect at the time of the transaction. Gains and losses on foreign currency transactions are included in earnings.

Assets and liabilities of self-sustaining foreign operations are translated into Canadian dollars at the year-end rate of exchange, while revenues and expenses are translated at average rates of exchange for the year. Gains and losses resulting from the translation of the financial statements of these operations, net of hedging activities and related income taxes, are deferred and included as a separate component of shareholders' equity.

For balance sheet purposes, amounts in US dollars have been translated into Canadian dollars at the rate of exchange in effect at year-end as follows: December 31, 1994 – US $1 = Cdn $1.403; December 31, 1993 – US $1 = Cdn $1.324; December 31, 1992 – US $1 = Cdn $1.271.

Comparative amounts

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Imasco Limited
Consolidated Statements of Earnings and Retained Earnings
For the years ended December 31
In millions of dollars, except earnings per common share

	1994	1993	1992
Consolidated Statements of Earnings			
Revenues	**9,385**	**9,681**	**9,908**
Tobacco taxes and duties	1,251	1,709	1,967
Revenues, net of tobacco taxes and duties	**8,134**	**7,972**	**7,941**
Operating costs	4,758	4,794	4,484
Financial services interest expense (Note 17)	2,205	2,271	2,571
Earnings from operations	**1,171**	**907**	**886**
Amortization of acquisition goodwill	55	55	55
Other costs and administration	56	46	55
Operating earnings – net	1,060	806	776
Interest expense (Note 18)	183	171	189
Earnings before income taxes and non-controlling interest	877	635	587
Provision for income taxes (Note 19)	292	192	180
Provision for tobacco surtaxes	39	–	–
Dividends on preference shares of subsidiary companies and non-controlling interest (Note 20)	40	34	27
Net earnings	**506**	**409**	**380**
Net earnings attributed to			
Preference shares	11	20	27
Common shares	495	389	353
	506	**409**	**380**
Earnings per common share (Note 16)	**$4.18**	**$3.26**	**$2.97**

	1994	1993	1992
Consolidated Statements of Retained Earnings			
Beginning of year	2,113	1,907	1,723
Net earnings	506	409	380
Dividends (Note 22)	(196)	(197)	(189)
Capital transactions (Note 21)	(76)	(6)	(7)
End of year	**2,347**	**2,113**	**1,907**

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Consolidated results of operations

Imasco's goal is to build value for its shareholders through sustained growth in earnings and cash flows, which will enable it to provide superior returns to its shareholders in the form of dividend payments and share price appreciation. We believe that to build value in the long term, returns on operating capital must exceed our cost of capital, estimated at 11.5% on a tax-affected, weighted average basis.

The concepts of economic profit and economic value added provide a management framework for measuring performance from a value generating perspective. Economic profit is defined as net operating profit after tax and after deducting the calculated cost of capital on average operating capital. Economic value added represents the growth in economic profit from year to year. Imasco achieved economic profit of $154 million in 1994 and $56 million in 1993, while economic value added was $98 million in 1994 and $65 million in 1993.

The following comments summarize the consolidated results of Imasco's operating companies and CT Financial Services, which are discussed individually commencing on page 25.

System sales decreased slightly to $16.4 billion in 1994 from $16.5 billion in 1993. System sales is an unaudited amount used to measure the overall business volumes of the Imasco group of companies. It comprises the consolidated net revenues of Imasco as well as the sales of Hardee's restaurants and Shoppers Drug Mart/Pharmaprix stores operating under licence or franchise agreements, and a significant amount of tobacco taxes and duties included in Imperial Tobacco's gross revenues.

Consolidated gross revenues declined 3% during 1994 as a result of the February 1994 tobacco tax rollback. Consolidated net revenues, which exclude the tobacco taxes and duties referred to above, are detailed in Note 31 on page 53. The increase of 2% is principally attributable to higher sales volumes at Imperial Tobacco. The revenues reported for CT Financial Services are on a gross investment income basis and are sensitive to variations in interest rates. A more meaningful measurement of CT Financial Services revenues is net investment income, which reflects the deduction of financial services interest expense. On a net investment income basis, including fees and other income, revenues of CT Financial Services increased 8%.

The change in operating costs is primarily a function of the changes in net revenues and gross margins at each of Imasco's operations, and of substantially lower provisions for investment losses at CT Financial Services. In recent years, Imasco has emphasized productivity initiatives at all operating companies, and management continues to focus on this area.

Earnings from operations by company are summarized in Note 31 on page 53. Significant improvements were reported by Imperial Tobacco and CT Financial Services. At Imperial Tobacco, the improvement reflects the impact of the return to a stable domestic tobacco market and the demise of the contraband market subsequent to the February 1994 rollback of tobacco taxes, while at CT Financial Services it reflects the net investment income increase, expense control, and lower provisions for investment losses. The comparability of the Hardee's amounts is affected by non-recurring transactions in both 1993 and 1994, as well as by fluctuations in exchange rates. These are discussed in detail on page 32. The large increase in operating loss at The UCS Group reflects a restructuring provision of $12 million recorded in the second quarter of 1994 relating to the closure of UCS tobacco and book shops in Woolco locations and the closure of unprofitable stores and concepts.

Other costs and administration expenses increased in 1994 as a consequence of non-recurring 1993 cash receipts on insurance claims. The weaker Canadian dollar in 1994 also adversely affected other costs and administration, as a portion of these expenses are incurred in US dollars.

The increase in overall interest expense in 1994 reflects a $14 million premium to retire high coupon debt that was assumed by Hardee's following the purchase and consolidation of the 50% interest it did not own in a partnership holding the land and buildings of 279 Hardee's restaurants (refer to Note 26 on page 51). The increase also includes interest on a portion of this debt which was carried for a period, prior to redemption. Excluding the impact of this transaction, interest expense in 1994 was lower than in 1993. The decline reflects a lower weighted average interest rate on total debt in 1994 (8.3% in 1994, compared with 8.7% in 1993). Although average debt levels were slightly higher in 1994, a greater proportion than in 1993 was of a variable rate nature. The impact of this shift in the mix of borrowings more than compensated for the generally higher interest rate environment in 1994. The potential impact of higher interest rates in the future is mitigated, as only 32% of the company's long-term debt at December 31, 1994 was of a variable rate nature. Changes in long-term debt during 1994 are discussed in greater detail on page 41. Interest coverage, the ratio of earnings before interest and taxes to interest expense, was 5.8 in 1994, compared with 4.7 in 1993.

The increase in the provision for income taxes reflects the increase in pre-tax earnings as well as an increase in the overall effective income tax rate. Imasco's effective income tax rate was 33.3% during 1994, compared with 30.3% during 1993. The increase was caused by a shift in earnings to higher tax rate jurisdictions and a higher effective tax rate at CT Financial Services. Note 19 on page 50 outlines the principal factors that caused the effective income tax rate to be lower than the combined statutory federal and provincial income tax rate. Imasco benefits from foreign earnings taxed at [illegible] rate tax rates. A substantial portion of this benefit is dependent upon certain international tax treaties. During 1993, new international tax conventions were ratified that, effective January 1, 1995, [illegible] reduce this benefit. Though alternative capital structures will be in place during 1995 in order to minimize the impact of the new tax conventions, a slightly higher overall effective tax rate is anticipated.

Together with the tobacco tax rollbacks and other measures [illegible] at eliminating the contraband tobacco market, in February [illegible] the federal and Québec governments imposed surtaxes on the [illegible] of tobacco manufacturers that will be in effect for a three-[illegible] period. From the date of imposition to the end of 1994, Imper[illegible] Tobacco provided $39 million for these surtaxes

Net earnings increased 24% during 1994, while earnings per common share (EPS) increased 28%. The increase in net earnings attributed to common shares also reflects reduced dividend payments on preference shares as discussed on page 43. The return on average common shareholders' equity increased in 1994 to 16.1%, from 13.8% in 1993, and exceeded the company's objective of 15%. This rise reflects the increase in net earnings attributed to common shares and, to a minor extent, the reduction in the average number of common shares outstanding resulting from the repurchase of 2,486,200 common shares during 1994 under the company's normal course issuer bids.

(Management's Discussion and Analysis continues on page 41.)

Imasco Limited
Consolidated Balance Sheets
December 31
In millions of dollars

	1994	1993	1992
Assets			
Current assets			
Cash and short-term investments	148	221	111
Accounts receivable and other	384	416	394
Inventories	801	695	736
	1,333	**1,332**	**1,241**
Non-current assets			
Notes receivable, investments, and other (Note 1)	285	196	210
Capital assets (Note 4)	1,255	1,126	1,132
Goodwill	243	243	243
	1,783	**1,565**	**1,585**
	3,116	**2,897**	**2,826**
Financial Services			
Investments			
Cash and short-term notes	3,626	3,153	3,092
Securities (Note 3)	6,892	7,003	6,666
Loans (Note 2)	37,010	34,466	33,061
Real estate investment properties (Note 7)	945	967	923
Capital assets and other (Note 8)	563	543	523
Goodwill	1,330	1,378	1,428
	50,366	**47,510**	**45,693**
Total assets	**53,482**	**50,407**	**48,519**
Liabilities and shareholders' equity			
Current liabilities			
Bank and other short-term loans	71	92	27
Accounts payable and other	680	663	624
Income, excise, and other taxes	219	149	162
	970	**904**	**813**
Long-term debt (Note 9)	**1,927**	**1,896**	**1,959**
Deferred credits and other liabilities (Note 10)	**145**	**189**	**176**
Financial Services			
Deposits (Note 11)	42,499	40,420	39,181
Borrowings and other liabilities (Note 12)	3,948	3,239	2,875
Deferred income taxes	66	73	86
Preference shares of subsidiary companies (Note 14)	537	540	329
Non-controlling interest (Note 15)	53	46	42
	47,103	**44,318**	**42,513**
Shareholders' equity			
Capital stock (Note 16)	930	967	1,163
Unrealized gain (loss) on foreign currency translation	60	20	(12)
Retained earnings	2,347	2,113	1,907
	3,337	**3,100**	**3,058**
Total liabilities and shareholders' equity	**53,482**	**50,407**	**48,519**

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

Approved by the Board,

Purdy Crawford

Purdy Crawford, Director

C H Hantho

Charles H. Hantho, Director

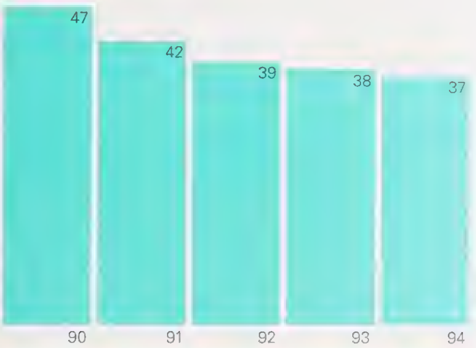
(continued from page 39)

Consolidated financial condition

During 1994, Imasco continued to strengthen its financial position. The company's ratio of long-term debt to total capital was reduced to 36.6% at December 31, 1994, compared with 37.9% the previous year. Imasco's long-term objective is a 35% ratio, allowing for temporary variations that may result from business acquisitions. Long-term debt increased $31 million during 1994 to total $1.9 billion at year-end. The increase reflects the higher carrying value of US dollar debt caused by the weaker Canadian dollar, partially offset by positive cash flows. The increase in shareholders' equity of $237 million is principally due

Long-term debt to total capital

(%)



to the strong earnings performance in 1994. The weaker Canadian dollar, which led to an increase in the unrealized foreign exchange gain, also contributed to the increase in shareholders' equity. The company's common share repurchase program reduced shareholders' equity by $93 million: $17 million as a reduction of capital stock, representing the stated value of the 2,486,200 shares repurchased, and $76 million as a charge to retained earnings, being the amount by which the purchase price of the shares exceeded the stated value. Capital stock was further reduced due to the redemption of $15 million of Perpetual First Preference Shares, Series D and the repurchase of $6 million of 6% Cumulative Preference Shares. During 1994, 40,265 common shares were issued pursuant to the exercise of stock options for a consideration of $1 million.

Long-term debt maturities repaid during 1994 consisted of the remaining US $25 million under a note issuance facility and $62 million of medium-term notes. The company also redeemed $28 million of 10.75% debentures which were due in 1999 and US $153 million of partnership debt assumed by Hardee's following the acquisition of the 50% interest it did not own in a real estate partnership (refer to Note 26 on page 51). During 1994, US $100 million fixed interest rate swaps matured and were not replaced. At December 31, 1994, the interest on US $150 million of floating-rate term loans had been effectively converted to fixed interest rates by means of interest rate swap contracts, and the interest on US $100 million floating-rate term loans had effectively been converted to fixed interest rates through forward rate agreements.

Maturities in 1995 consist principally of $112 million of medium-term notes which, under current plans, will be refinanced through existing credit facilities.

Imasco maintains committed credit facilities which make significant financial resources available and provide the company with the flexibility to meet short- and long-term borrowing requirements. At December 31, 1994, the company had US $1.4 billion available under such credit facilities, of which US $585 million was being used by direct borrowings. The unused credit facilities are available for additional direct borrowings and for backing up issues of commercial paper. During 1994, the maturity under a US $1.25 billion evergreen credit facility was extended by one year, to 2001. The financial strength of Imasco is reflected in its credit ratings. During 1994, the rating of the long-term debt of Imasco Limited was confirmed at "A (high)" by CBRS and "A" by DBRS and was rated "A" in its first rating by Standard & Poor's.

At December 31, 1994, net cash resources, defined as cash and short-term investments less bank and other short-term loans, amounted to $77 million, compared with $129 million at December 31, 1993. The decline reflects the re-investment of short-term instruments into higher-yielding, long-term securities. The net cash resources, together with Imasco's significant available credit facilities and cash generating abilities, ensure that short-term operating requirements will be met. The net working capital position at December 31, 1994 was $363 million, compared with $428 million the previous year, and the ratio of current assets to current liabilities at December 31, 1994 was 1.4:1, compared with 1.5:1 at December 31, 1993.

In July 1994, the Board of Directors of Imasco authorized a normal course issuer bid to purchase up to 3,000,000 Imasco Limited common shares, representing approximately 2.5% of the then outstanding common shares. Common shares may be purchased when they represent an attractive investment opportunity for Imasco. The company may also purchase common shares under the bid to cover the exercise of options under Imasco's stock option plan (thereby reducing the dilution that would otherwise result) or to make shares available for other purposes. Shares must be purchased at the market price at the time of acquisition plus brokerage fees. This normal course issuer bid expires August 4, 1995, and it is expected that another program will be approved at that time. On February 2, 1995, the Board of Directors of Imasco allocated up to $100 million to the purchase of common shares during 1995. The 1994 purchases had a minimal impact on 1994 earnings per common share, as a large proportion occurred in the latter part of the year. However, during 1995, earnings per common share will benefit more from this repurchasing activity, since the shares repurchased in 1994 will be considered unissued for the entire year when calculating the weighted average number of shares outstanding.

Imasco has significant operations in the United States, and exchang[illegible] rate fluctuations have an impact on net earnings and net asset va[illegible] This exposure is minimized by Imasco's practice of maintaining [illegible] borrowings in US dollars, which is prudently managed by taking [illegible] account the differing costs of borrowing in the two countries. Th[illegible] average exchange rate during 1994 was approximately US $1 [illegible] $1.37, compared with approximately US $1 = Cdn $1.29 in 1993 [illegible] Based upon the level of net earnings generated in US dollars in 19[illegible] each movement of one cent in the US/Canadian exchange rate had an impact of $0.6 million on net earnings. As a result, 1994 net earnings benefited by approximately $5 million due to the weaker Canadian dollar. The future impact of exchange rate fluctuations on net earnings depends upon the level of net earnings generated in US dollars.

As discussed in greater detail on page 30, CT Financial Services actively uses derivative financial instruments as a risk-management tool to protect against interest rate and foreign exchange risk, and to hedge risks associated with certain innovative products. Imasco employs derivative financial instruments to a limited extent to manage its exposure to interest rate fluctuations. Information with respect to the company's interest rate swaps and forward rate agreements is disclosed in Note 9 on page 46. In addition, from time to time the company has entered into forward currency contracts of modest amounts as part of its management of foreign exchange risks. No forward currency contracts were outstanding at the end of 1994.

(Management's Discussion and Analysis continues on page 43.)

Imasco Limited
Consolidated Statements of Changes in Financial Position
For the years ended December 31
In millions of dollars

	1994	1993	1992
Operating activities			
Net earnings	[illegible]	409	380
Items not affecting cash			
Amortization (Note 31)	340	328	314
Provision for investment losses	[illegible]	205	236
Other items	[illegible]	4	25
Earnings adjusted for non-cash items	[illegible]	946	955
Changes in non-cash current assets and liabilities (Note 23)	30	40	(23)
Increase in other liabilities	24	25	11
Investment losses and write-offs, net of recoveries	(124)	(199)	(98)
Cash from operating activities	**930**	**812**	**845**
Financing activities			
Issue of long-term debt	[illegible]	327	243
Repayment of long-term debt	(414)	(408)	(418)
Redemption of preference shares	(21)	(200)	–
Issue (repurchase) of common shares – net	(92)	2	(2)
Dividend payments (Note 22)	(196)	(197)	(189)
Financial Services			
Increase in deposits	[illegible]	1,239	1,587
Increase in borrowings	[illegible]	328	370
Issue of shares to non-controlling interests, net of share redemptions and issue costs	[illegible]	212	–
Cash from financing activities	**2,284**	**1,303**	**1,591**
Investing activities			
Additions to capital assets	[illegible]	(165)	(170)
Proceeds from disposals of capital assets	[illegible]	16	19
Acquisition of interest in real estate partnership (Note 26)	[illegible]	–	–
Changes in notes receivable, investments, and other	[illegible]	6	30
Financial Services			
Changes in investments			
Cash and short-term notes	[illegible]	(61)	(365)
Securities and other investments	[illegible]	(408)	172
Loans	[illegible]	(1,392)	(1,978)
Net additions to capital assets	[illegible]	(116)	(116)
Changes in other assets and liabilities	(40)	50	(4)
Cash used for investing activities	**(3,266)**	**(2,070)**	**(2,412)**
Cash and cash equivalents			
Increase (decrease) for the year	**(52)**	**45**	**24**
Beginning of year	[illegible]	84	60
End of year	**77**	**129**	**84**
Cash and short-term investments	[illegible]	221	111
Bank and other short-term loans	[illegible]	(92)	(27)
	77	**129**	**84**

The accompanying accounting policies and notes are an integral part of the consolidated financial statements.

(continued from page 41)

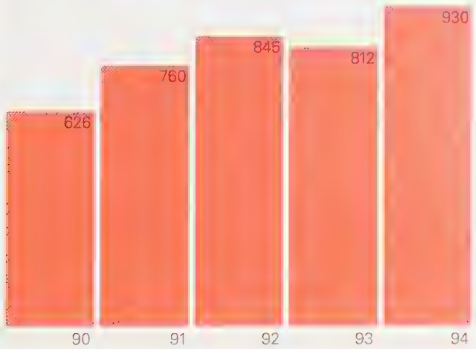
Consolidated cash flows

The accompanying statements of changes in financial position are prepared in accordance with generally accepted accounting principles and consolidate the activities of CT Financial Services on a line-by-line basis. However, the actual cash contribution from CT Financial Services is the amount of dividends received by Imasco, which was $93 million in both 1994 and 1993. Unaudited summaries of cash flows, which exclude the line-by-line activities of CT Financial Services and recognize the dividend received as a single amount, are presented on page 54. Management believes this presentation to be more meaningful.

Imasco's ability to generate strong cash flows was again demonstrated during 1994. As illustrated on page 54, Imasco generated $310 million of available cash during 1994, compared with $324 million in 1993. The 1994 amount was applied as follows: $221 million, on a net basis, toward the repayment of long-term debt, $113 million for capital transactions including repurchases of common shares and redemptions and repurchases of preference shares, and $28 million for the acquisition by Hardee's of the 50% interest it did not own in a real estate partnership. It was offset by a decrease in cash resources of $52 million.

Cash from operating activities increased in 1994 due to higher net earnings. A substantial portion of the increase in 1994 net earnings arises from a $65 million improvement in CT Financial Services' provision for investment losses which does not generate additional cash. However, the improvement in actual investment losses and write-offs amounted to $75 million. During 1994, a considerable portion of cash from operations was reinvested to support working capital requirements. In particular, Imperial Tobacco inventory levels rose during 1994 in order to replenish the low levels that existed at the end of 1993 and to support higher business volumes. Also, land inventories at Genstar Development were replaced at a greater rate in 1994 than in 1993. This was partially offset by an increase in taxes payable, principally reflecting higher earnings and the tobacco surtaxes. Other fluctuations in working capital balances are detailed in Note 23 on page 50.

Cash from continuing operations
($ millions)



Cash from operating activities was again sufficient to fund dividend payments and capital expenditures. Dividend payments by class of share are detailed in Note 22 on page 50. The comparability of dividend payments between 1994 and 1993 is affected by capital transactions during these years and by changes in dividend rates during 1994. Dividends on preference shares declined following the June 30, 1994 redemption of $15 million of Perpetual First Preference Shares, Series D and the repricing on the same date of the dividend rate on the remaining $135 million from 7.90% to 6.90%. In addition, dividends were paid for a partial year in 1993 on the $200 million of 7.375% Retractable First Preference Shares, Series C, which were redeemed on July 17, 1993. The fourth quarter 1994 repurchase of $6 million of 6% Cumulative Preference Shares will affect dividend payments in 1995. The number of common shares outstanding decreased to 116,740,668 at December 31, 1994 from 119,186,603 the previous year, principally due to shares repurchased under the company's normal course issuer bids. A full reconciliation of common share activity is provided in Note 16 on page 49. The impact of the reduction in the number of common shares on dividend payments was more than offset by the increase in the annual dividend rate per common share, which rose to $1.56 in 1994 from $1.48 in 1993. The 1994 common dividend payout ratio, or ratio of dividends per common share to earnings per common share, was 37.3%, compared with 45.4% in 1993. On February 2, 1995, Imasco's Board of Directors approved an increase in the indicated annual dividend rate for 1995 to $1.92 per share. Based upon this new rate and the number of common shares outstanding at December 31, 1994, dividend payments on common shares will increase by approximately $40 million during 1995. However, any common share repurchases by the company in 1995 will cause this amount to be lowered. On February 2, 1995, Imasco's Board of Directors also recommended that the stock be split on a two-for-one basis. This will be submitted for approval at the Annual and Special Meeting of Shareholders on May 2, 1995.

Gross additions to capital assets, detailed by company, are listed on page 53. Additions to capital assets at Imperial Tobacco during 1994 were primarily to upgrade and maintain manufacturing and processing facilities and to invest in technology. The level of spending at Imperial Tobacco is expected to increase considerably during 1995, as the company embarks on a major program to modernize its manufacturing facilities and continues its technology-related spending. Capital expenditures at CT Financial Services continue to be related to technology and to the on-going expansion of the retail branch network and alternative delivery systems. Disbursements in these areas are expected to rise in 1995. Total US dollar capital expenditures at Hardee's increased by 7% in 1994. Expenditures on restaurant operations increased in 1994, reflecting higher spending on restaurant maintenance and remodelling, new restaurant openings, and [illegible]formation systems. FFM's 1994 capital expenditures were lower than in 1993, as investments in new equipment decrease[illegible] Canadian dollar also contributed to the increase in capital a[illegible]tions reported by Hardee's in 1994. It is expected that 1995 capital expenditures on restaurant operations will rise and will principally be made for restaurant remodelling and enhancement and information systems. Spending at FFM should also increase. The nature of capital expenditures at Shoppers Drug Mart/Pharmaprix was modified during 1994 to place greater emphasis on information technology, particularly point-of-sale computers, and less emphas[illegible] on store renovations and openings. The transition to a centralized purchasing and distribution system commencing in 1995, discussed on page 34, will result in considerable new capital asset additions in 1995, particularly for company-owned distribution centres and information technology. The company expects its 1995 capital spending on store renovations to approximate 1994 levels, while acquisition opportunities will likely lead to increased spending in that area. On a consolidated basis, Imasco's 1995 additions to capital assets are expected to approximate $400 million and will be funded internally.

In 1995, Imasco expects internally generated cash flows to be sufficient to fund its cash requirements for operations, capital expenditures, dividends, and further common share repurchases. In addition, unused credit facilities are available to meet other cash requirements that may arise.

Imasco Limited
Notes to the Consolidated Financial Statements
For the years ended December 31
In millions of dollars

1. Notes receivable, investments, and other

	1994	1993	1992
Notes receivable[1]	79	60	82
Securities[2]	75	20	30
Joint ventures and partnerships[3]	38	44	36
Deferred income taxes	24	–	–
Deferred charges[4]	14	21	23
Other	55	51	39
	285	**196**	**210**

1 Represents notes receivable from restaurant licensees and drug-store associates.

2 Market value amounted to $72 million at December 31, 1994 (1993 – $20 million; 1992 – $32 million).

3 Equity earnings of joint ventures and partnerships amounted to $3 million during 1994 (1993 – $1 million; 1992 – $2 million).

4 Amortization of deferred charges amounted to $11 million during 1994 (1993 – $6 million; 1992 – $8 million).

2. Loans – Financial Services

	1994	1993	1992
Mortgages – residential	25,929	23,672	22,350
Mortgages – commercial	2,846	3,214	3,553
Consumer and collateral	6,209	5,332	4,425
Corporate	1,028	1,382	1,921
Credit card receivables	611	450	373
Receivables under equipment leases	387	416	439
	37,010	**34,466**	**33,061**

4. Capital assets

	1994	1993	1992
Land	184	120	120
Buildings	514	359	341
Equipment	1,061	1,025	959
Leasehold improvements	539	561	532
Favourable leases	73	79	73
Property under capital leases	19	22	28
	2,390	2,166	2,053
Accumulated amortization	(1,135)	(1,040)	(921)
	1,255	**1,126**	**1,132**

Accumulated amortization is summarized below:

	1994	1993	1992
Buildings	130	120	100
Equipment	692	623	567
Leasehold improvements	262	248	206
Favourable leases	41	37	28
Property under capital leases	10	12	20
	1,135	**1,040**	**921**

Amortization expense is summarized below:[1]

	1994	1993	1992
Buildings	17	15	15
Equipment	132	101	94
Leasehold improvements	41	44	40
Favourable leases	8	9	9
Property under capital leases	1	1	1
	199	**170**	**159**

1 The net book value of capital assets, other than land, not being amortized amounted to $17 million at December 31, 1994 (1993 – $12 million; 1992 – $20 million).

3. Securities – Financial Services

	1994		1993		1992	
	Stated value	Market value	Stated value	Market value	Stated value	Market value
Bonds and debentures						
Canada	2,929	2,912	2,495	2,498	2,579	2,571
Provincial	396	395	663	678	305	305
Corporate	480	476	413	414	336	334
U.S. federal government and other	111	110	282	283	272	273
	3,916	3,893	3,853	3,873	3,492	3,483
Stocks						
Preference	1,181	1,181	1,228	1,300	1,511	1,507
Common	174	174	144	156	137	141
	1,355	1,355	1,372	1,456	1,648	1,648
Mortgage-backed securities						
Government insured	1,323	1,261	1,405	1,422	1,199	1,224
Other insured	298	293	373	375	327	330
	1,621	1,554	1,778	1,797	1,526	1,554
	6,892	**6,802**	**7,003**	**7,126**	**6,666**	**6,685**

In millions of dollars

5. Non-performing investments – Financial Services

Included in each investment category are the following non-performing investments:

	1994	1993	1992
Loans in arrears			
Mortgages – residential	69	145	197
Mortgages – commercial	104	130	194
Corporate	170	174	350
Other	38	43	53
Securities	13	35	5
Real estate acquired in settlement of loans	115	107	131
Non-performing investments	509	634	930
Allowance for investment losses (Note 6)	(372)	(350)	(342)
Net non-performing investments	**137**	**284**	**588**

6. Allowance for investment losses – Financial Services

	1994	1993	1992
Beginning of year	350	342	197
Provision charged to earnings	140	205	236
Foreign exchange adjustment	6	2	7
Investment losses and write-offs, net of recoveries	(124)	(199)	(98)
End of year	**372**	**350**	**342**

The apportionment of the allowance for investment losses is summarized below:

	1994	1993	1992
Loans			
Mortgages – residential	46	64	60
Mortgages – commercial	92	69	75
Corporate	136	100	111
Other	37	35	35
Securities	23	43	30
Real estate acquired in settlement of loans	38	39	31
	372	**350**	**342**
Specific allowance	177	194	211
General allowance	195	156	131
	372	**350**	**342**

7. Real estate investment properties – Financial Services

	1994	1993	1992
Investment properties	852	862	839
Development and resale properties	98	103	38
	950	965	877
Accumulated amortization	(82)	(66)	(54)
	868	899	823
Real estate acquired in settlement of loans – net	77	68	100
	945	**967**	**923**

Amortization of real estate investment properties amounted to $6 million in 1994 (1993 – $5 million; 1992 – $4 million). There was no interest capitalized in cost of real estate investment properties during 1994 (1993 – $1 million; 1992 – $4 million).

8. Capital assets and other – Financial Services

	1994	1993	1992
Land	88	78	66
Buildings	211	200	175
Equipment	467	435	384
Leasehold improvements	166	153	137
	932	866	762
Accumulated amortization	(456)	(397)	(327)
Capital assets	476	469	435
Capitalized servicing rights	33	35	35
Purchased servicing rights	41	25	31
Other	13	14	22
	563	**543**	**523**

Accumulated amortization is summarized below:

	1994	1993	1992
Buildings	70	61	53
Equipment	291	252	203
Leasehold improvements	95	84	71
	456	**397**	**327**

Amortization expense is summarized below:

	1994	1993	1992
Buildings	10	10	9
Equipment	65	61	56
Leasehold improvements	13	12	13
	88	**83**	**78**

In millions of dollars

9. Long-term debt

	1994	1993	1992
Term loans[1,2,3]	821	701	765
Debentures			
11.85% due February 1996	150	150	150
10½% due November 1996	200	200	200
10½% due April 1998	150	150	150
10¼% due December 2001	150	150	150
9.85% due April 2002	150	150	150
8.375% due June 2003	150	150	–
10¾% repaid 1994	–	28	30
	950	978	830
Notes payable and other			
7.7% to 11.9% medium-term notes due to 1998[4]	139	201	246
10½% repaid 1993	–	–	100
Capital lease and other obligations[2,5]	17	16	18
	156	217	364
	1,927	**1,896**	**1,959**

1 Term loans consisting of unsecured notes, some of which mature within one year, are supported by committed bank term credit facilities of $1.8 billion (US $1.25 billion) expiring in 2001 and $175 million (US $125 million) expiring in 1998. Term loans outstanding at December 31, 1994 carried a weighted average interest rate of 6.8% (1993 – 4.4%; 1992 – 4.8%).

2 All or partly payable in US dollars. The aggregate principal amount of long-term debt payable in US dollars at December 31, 1994 was $836 million (US $596 million), at December 31, 1993 was $700 million (US $529 million), and at December 31, 1992 was $702 million (US $552 million).

3 The Corporation has entered into fixed interest rate swap contracts (swaps) and forward rate agreements (FRAs) to manage exposure to movement in interest rates. Interest payments on US $150 million floating rate term loans have effectively been converted through swaps to fixed interest rates of approximately 6.3% with terms ending between 1996 and 1998, and interest payments on US $100 million floating rate term loans have effectively been converted through FRAs to fixed interest rates of approximately 7.4%. The FRAs mature during 1995. At December 31, 1994, the swaps had a favourable fair market value of $10 million while the FRAs had a slight positive value. All of the above were contracted with financial institutions rated AA or better.

4 Medium-term notes carried a weighted average interest rate of 10.0% at December 31, 1994 (1993 – 10.2%; 1992 – 10.5%).

5 Capital lease obligations amounted to $13 million at December 31, 1994 (1993 – $14 million; 1992 – $15 million) and expire on various dates to 2010. The aggregate minimum commitment under such leases totalled $28 million at December 31, 1994 (1993 – $30 million; 1992 – $33 million).

Long-term debt maturities over the next five years are estimated as follows: 1995 – $116 million; 1996 – $362 million; 1997 – $6 million; 1998 – $345 million; 1999 – $3 million. Maturities in 1995 are expected to be refinanced through existing committed long-term credit facilities and have therefore been classified as long-term debt.

10. Deferred credits and other liabilities

	1994	1993	1992
Deferred gain[1]	11	73	76
Deferred income taxes	–	9	21
Other liabilities	134	107	79
	145	**189**	**176**

1 The 1994 amount represents the deferred gain pursuant to a 1988 sale and leaseback transaction in which the land and buildings of 101 restaurant properties were sold to a third party and leased back for an initial minimum period of 15 years. The deferred gain, which amounted to $12 million at December 31, 1993 and $13 million at December 31, 1992, is being amortized over the term of the lease. The lease is accounted for as an operating lease.

A second sale and leaseback transaction was completed during 1988 in which the land and buildings of 279 restaurants were sold to a joint venture formed by a subsidiary of the Corporation and a third party and were subsequently leased back. The gain resulting from this transaction was deferred. In April 1994, the subsidiary purchased the 50% interest it did not own in the partnership, which resulted in the elimination of the unamortized deferred gain balance. Refer to Note 26 on page 51 for additional details concerning the acquisition.

11. Deposits – Financial Services

	1994	1993	1992
Demand	20,516	20,802	20,077
Term	21,983	19,618	19,104
	42,499	**40,420**	**39,181**

Canada Trustco Mortgage Company (Canada Trustco), a wholly owned subsidiary of CT Financial Services, issued $500 million 99-year term deposit receipts maturing September 20, 2089 with interest payable at 12.75% per annum. Subsequent to issue, interest coupons payable in years 11 through 99 were purchased and cancelled. The present value of these coupons of $242 million (1993 – $213 million; 1992 – $189 million) is offset against the deposit receipts of $518 million (including accrued interest) included in deposits in the consolidated balance sheets as of December 31, 1994, 1993, and 1992; however, there is no legal right of offset in the event of default.

In millions of dollars

12. Borrowings and other liabilities – Financial Services[1]

	1994	1993	1992
Advances from Federal Home Loan Bank 2.67% to 8.61% due to 2007[2]	2,124	1,869	1,719
Notes, mortgages, debentures, and other borrowings			
11.2% notes due to 2009[3]	28	28	28
10.25% guaranteed notes repaid 1993	–	–	105
6% to 12.75% mortgages due to 2012[4]	246	250	253
Prime rate $75 million Series A, convertible redeemable debentures due 2009[5]	78	77	78
Variable rate $200 million money market convertible redeemable debentures due 2010[6]	201	201	201
5.5% to 8.5% securities sold under agreements to repurchase within one year[7]	703	397	299
Other advances[8]	216	197	162
	1,472	1,150	1,126
Subordinated debentures			
8.125% $150 million Series 1, capital debentures due 2003[9]	154	154	–
10.05% $150 million Series 2, capital debentures due 2014[10]	156	–	–
	310	154	–
Borrowings	3,906	3,173	2,845
Other liabilities	42	66	30
	3,948	**3,239**	**2,875**

1 Amounts reported include accrued interest.

2 Secured by pledges of qualifying collateral, primarily mortgages. The market value of the pledged qualifying collateral is at least 110% of the amount of the advances.

3 Secured by assets with an estimated value of $28 million.

4 Primarily first and second real estate mortgages secured by assets with an estimated value of $268 million at December 31, 1994 (1993 – $269 million; 1992 – $274 million). Also includes collateralized mortgage obligations secured by pledges of Federal Home Loan Mortgage Corporation mortgage-backed certificates with a carrying value of $15 million (1993 – $18 million; 1992 – $21 million).

5 Convertible at any time into preference shares of Canada Trustco at either the holder's or issuer's option and redeemable at the issuer's option. The issuer's conversion and redemption privileges require the consent of the Superintendent of Financial Institutions.

6 Convertible at the issuer's option, in whole, into preference shares of CT Financial Services and at the holder's option, in whole, at any time after May 17, 2009.

7 Collateralized by mortgage-backed securities and U.S. treasury bills with a market value of $654 million (1993 – $401 million; 1992 – $302 million).

8 Represents advances from borrowers for taxes and insurance.

9 Redeemable by Canada Trustco on or after March 12, 1998, with the consent of the Superintendent of Financial Institutions. After March 12, 1998, the debentures bear interest at the bankers' acceptance rate plus 1%.

10 Redeemable by Canada Trustco on or after August 4, 1999. The debentures are also exchangeable by the holder on or after August 4, 1999, after notice from Canada Trustco, for an equal aggregate principal amount of investment certificates or a new issue of subordinated indebtedness of Canada Trustco. Both privileges require the consent of the Superintendent of Financial Institutions.

The required principal repayments for each of the next five years are as follows: 1995 – $1,679 million; 1996- $808 million; 1997 – $499 million; 1998 – $143 million; 1999 – $15 million.

13. Derivative financial instruments – Financial Services

CT Financial Services enters into interest rate swap contracts, interest rate options, forward rate agreements, foreign exchange contracts, and options on Eurodollar futures contracts as a principal to manage exposure to movement in interest rates and foreign currency that may affect its assets and liabilities. The company does not enter into contracts as an intermediary to earn fee income. These contracts are not reflected in the consolidated balance sheets.

The main risks associated with derivative financial instruments are credit risk and market risk. These include the risk that a counterparty will default on its contractual obligations. Management of CT Financial Services monitors these risks regularly by the use of modelling and simulation techniques to ensure that limits established by policy and capital resources are not exceeded.

Notional amount is the value upon which contracts are based. Risk-weighted value is the value of contracts, calculated in accordance with regulatory definition, against which CT Financial Services is required to maintain capital. Fair market value is the net present value of expected cash flows of all contracts. Credit exposure amount is the cost to replace contracts that have value, should the counterparty fail to meet its obligations.

	1994	1993	1992
Notional amount			
Interest rate swaps	10,300	4,401	3,099
Interest rate options	5,425	4,716	328
Forward rate agreements	724	–	–
Foreign exchange contracts	881	491	197
Options on Eurodollar futures contracts	14,939	2,383	1,589
	32,269	11,991	5,213
Risk-weighted value			
Interest rate swaps	10	11	5
Interest rate options	20	1	1
Forward rate agreements	–	–	–
Foreign exchange contracts	7	4	1
Options on Eurodollar futures contracts	7	–	–
	44	16	7

In millions of dollars, except number of shares data

13. Derivative financial instruments – Financial Services (continued)

	1994	1993	1992
Fair market value			
Interest rate swaps	(24)	(227)	(67)
Interest rate options	117	6	1
Forward rate agreements	–	–	–
Foreign exchange contracts	(82)	(8)	(30)
Options on Eurodollar futures contracts	20	1	–
	31	(228)	(96)
Credit exposure amount			
AAA rated counterparties	3	2	–
AA rated counterparties	91	38	9
A rated counterparties	60	4	2
Other counterparties	–	–	1
Options on Eurodollar futures contracts	20	1	–
	174	45	12

14. Preference shares of subsidiary companies – Financial Services

Issued and outstanding preference shares of subsidiary companies, all owned by third parties, are as follows:

	1994	1993	1992
Financial Services			
200 Cumulative redeemable perpetual first preference shares – series 1[1]	100	100	100
[illegible]000,000 Non-cumulative redeemable perpetual first preference shares – series 2[2]	50	50	50
6,000,000 Non-cumulative redeemable first preference shares – series 4[3]	150	150	–
2,000,000 Non-cumulative redeemable first preference shares – series 5[4]	63	63	–
Canada Trustco			
5,388,342 Cumulative redeemable preference shares (1993 – 5,527,642; 1992 – 5,625,042)	124	127	129
Truscan Realty Limited[5]			
2,000,000 Cumulative redeemable preference shares[6]	50	50	50
	537	**540**	**329**

1 The dividend rate is determined quarterly by negotiation or auction procedures. Redeemable at $500,000 per share plus accrued and unpaid dividends.

2 The dividend rate is 8.50% to March 28, 1995 and thereafter will be set at 70% of prime and adjusted based upon the trading price of the shares. Redeemable on March 31, 1995 at $25.00 per share and on or after April 1, 1995 at $25.125 per share for either cash or common shares of CT Financial Services at 95% of the market price of the common shares.

3 The dividend rate is 7.35%. Redeemable on or after February 1, 2003 at $25.00 per share plus accrued and unpaid dividends. Convertible on or after August 1, 2003, at the option of the issuer, into that number of common shares of CT Financial Services determined by dividing $25.00 by the greater of $2.00 and 95% of the weighted average trading price of the common shares of CT Financial Services for a defined period immediately prior to the date of conversion. CT Financial Services has the right to redeem or find a substitute purchaser for the tendered shares.

4 The dividend rate is 6.40%. Redeemable on or after February 1, 2003 at US $25.00 per share plus accrued and unpaid dividends. Convertible on or after August 1, 2003, at the option of the issuer, into that number of common shares of CT Financial Services determined by dividing US $25.00 by the greater of US $2.00 and the US dollar equivalent of 95% of the weighted average trading price of the common shares of CT Financial Services for a defined period immediately prior to the date of conversion. CT Financial Services has the right to redeem or find a substitute purchaser for the tendered shares.

5 Truscan Realty Limited (Truscan) is an indirectly wholly owned subsidiary of CT Financial Services.

6 CT Financial Services has entered into a purchase agreement whereby, in the event Truscan fails to make any dividend payment, or redemption or retraction payment, it will purchase any outstanding series 1 preference shares of Truscan at $25.00 per share plus accrued and unpaid dividends.

15. Non-controlling interest

	1994	1993	1992
CT Financial Services	47	43	39
First Federal	4	3	3
Meridian Securities	2	–	–
	53	**46**	**42**

In millions of dollars, except number of shares and stock option data

16. Capital stock

Authorized:

An unlimited number of First and Second Preference Shares, issuable in series;
120,500,000 common shares.

Issued and outstanding:

	1994	1993	1992
270 6.90% Perpetual First Preference Shares Series D[1]	135	150	150
8,000,000 7.375% Retractable First Preference Shares Series C[2]	–	–	200
1,191,888 6% Cumulative Preference Shares[3]	–	6	6
116,740,668 common shares (1993–119,186,603 1992–119,099,363)[4]	795	811	807
	930	**967**	**1,163**

Changes in issued and outstanding common shares were as follows:

	Shares	Amount
December 31, 1991	119,114,183	802
Issued at $26.00 to $36.00 on the exercise of stock options	244,580	7
Shares repurchased[5]	(259,400)	(2)
December 31, 1992	119,099,363	807
Issued at $27.50 to $39.63 on the exercise of stock options	181,540	5
Shares repurchased[5]	(94,300)	(1)
December 31, 1993	119,186,603	811
Issued at $27.63 to $28.25 on the exercise of stock options	40,265	1
Shares repurchased[5]	(2,486,200)	(17)
December 31, 1994	116,740,668	795

1 The dividend rate is set at 6.90% until June 30, 1999 and thereafter can be reset through negotiation or auction procedures. Prior to July 1, 1994, the dividend rate had been set at 7.90%. The shares are redeemable at the Corporation's option at $500,000 per share plus accrued and unpaid dividends. On June 30, 1994, 30 shares were redeemed at their stated value of $500,000 each.

2 Redeemed on July 17, 1993 at their stated value of $25.00 each, plus accrued and unpaid dividends.

3 Repurchased in November 1994 at their stated value of $4.86⅔ each.

4 The weighted average number of outstanding common shares used in the determination of earnings per common share for 1994 was 118,435,989 (1993–119,151,946; 1992–119,122,033).

5 Represents the number and total average stated value of shares repurchased under normal course issuer bids authorized by the Corporation's Board of Directors. Under the current program, in effect from August 5, 1994 to August 4, 1995, the Corporation is authorized to repurchase up to 3,000,000 of its common shares at the prevailing market price. At December 31, 1994, 1,771,400 common shares had been repurchased under the current issuer bid. Repurchased shares are restored to the status of authorized but unissued shares.

Under the Corporation's Stock Option Plan, options to purchase common shares of the Corporation may be granted to certain employees. Each option enables the holder to purchase one common share of the Corporation at an option price equal to the closing price per common share for a board lot sold on The Toronto Stock Exchange on the last trading day prior to the date of the grant. The options expire not later than 10 years after the date of the grant and are generally first exercisable two years following the date of the grant. During the periods reported, exercise of the stock options would dilute earnings per common share by $0.02 or less.

Details of the stock options outstanding were as follows:

	1994	1993	1992
Outstanding, beginning of year	1,694,955	1,481,070	1,429,110
Granted	385,650	416,675	326,630
Exercised	(40,265)	(181,540)	(244,580)
Cancelled	(43,100)	(21,250)	(30,090)
Outstanding, end of year	1,997,240	1,694,955	1,481,070
Weighted average exercise price of stock options outstanding, end of year	$34.97	$34.60	$32.65

17. Financial services interest expense

	1994	1993	1992
Demand deposits	523	553	709
Term deposits	1,413	1,493	1,700
Advances from Federal Home Loan Bank	105	79	79
Notes, mortgages, and debentures	41	44	51
Other borrowings	25	12	11
Subordinated debentures	19	10	–
Net expense on derivative financial instruments	79	80	21
	2,205	**2,271**	**2,571**

18. Interest expense

	1994	1993	1992
Interest on long-term debt	168	175	181
Premium on debt redemption	14	–	2
Interest on capital leases	2	2	2
Other interest – net	(1)	(6)	4
	183	**171**	**189**

In millions of dollars, except tax rate data

19. Income taxes

The effective income tax rate varies from year to year due to factors such as changes in statutory income tax rates, the imposition of temporary surtaxes, variations in special tax incentives made available under tax legislation and differences in the extent to which they may be claimed, and differences in the geographic and industrial mix of earnings.

The principal factors causing the difference between the effective income tax rate and the combined federal and provincial tax rate in Canada are as follows:

	1994	1993	1992
Combined federal and provincial income tax rate	41.7%	41.9%	41.6%
Tax exempt investment income	(4.3)	(4.9)	(8.9)
Non-deductible goodwill amortization	2.3	3.1	3.1
Foreign income taxed at lower rates	(4.7)	(6.6)	(7.4)
Manufacturing and processing allowances	(3.5)	(2.7)	(2.1)
Other items	1.8	(0.5)	4.3
Effective income tax rate, excluding tobacco surtaxes	**33.3%**	**30.3%**	**30.6%**

The components of the provision for income taxes are as follows:

	1994	1993	1992
Current	301	211	166
Deferred	(9)	(19)	14
	292	**192**	**180**

20. Dividends on preference shares of subsidiary companies and non-controlling interest

	1994	1993	1992
Dividends on preference shares of CT Financial Services and its subsidiaries	36	31	23
Non-controlling interest in CT Financial Services' net earnings	4	3	4
	40	**34**	**27**

21. Capital transactions

	1994	1993	1992
Cost of common shares repurchased in excess of stated value	76	3	7
Cost of issuing securities by a subsidiary, net of tax	–	3	–
	76	**6**	**7**

22. Dividends

	1994	1993	1992
6.90% Perpetual First Preference Shares Series D[1]	11	12	12
7.375% Retractable First Preference Shares Series C	–	8	15
6% Cumulative Preference Shares[2]	–	–	–
Common shares[3]	185	177	162
	196	**197**	**189**

1 The attributes of the Series D Preference Shares provide that no dividends may be declared, paid, or set apart for payment on the common shares unless all dividends payable on such preference shares have been declared and paid, or set apart for payment.

2 The dividend paid amounted to $348,000 for 1994 (1993 and 1992 – $348,000).

3 The Board of Directors of the Corporation has no fixed policy with respect to the payment of dividends on the Corporation's common shares. However, the Corporation has declared and paid dividends on its common shares every year since its inception.

Refer to Note 16 on page 49 for details of changes in the number of issued and outstanding preference and common shares.

23. Changes in non-cash current assets and liabilities

Changes in non-cash current assets and liabilities relating to operations were as follows:

	1994	1993	1992
(Increase) decrease in current assets			
Accounts receivable and other	35	4	23
Inventories	(102)	44	(11)
Increase (decrease) in current liabilities			
Accounts payable and other	28	5	15
Income, excise, and other taxes	69	(13)	(50)
	30	**40**	**(23)**

In millions of dollars

24. Retirement benefits

Pension benefits are available to substantially all full-time employees under the Corporation's registered defined benefit plans. The registered pension plans are funded through contributions based on actuarial cost methods as permitted by pension regulatory bodies. The Corporation also makes supplementary retirement benefits available to certain employees under unregistered plans. Employees of CT Financial Services and First Federal are covered by separate pension plans, as described in Note 25.

Earnings are charged with the cost of benefits earned by employees as services are rendered. Benefits under these plans are based on the employee's years of service and final average pay. The projected benefit obligations were determined using assumed discount rates ranging from 8% to 8¾% (1993–7¾% to 8%; 1992–8%) and assumed increases in compensation rates ranging from 4¼% to 6% (1993–4¾% to 6%; 1992–5% to 6%). The assumed long-term rates of return on assets ranged from 8% to 8¾% (1993–7¾% to 8%; 1992–8%).

The Corporation has immunized itself against the impact of future changes in interest rates on the assets and the projected benefit obligation related to Canadian retirees, which amounts to approximately $257 million. Both the assumed discount rate used to project this obligation and the assumed rate of return on the related assets were 7¼%.

Effective January 1, 1995, Hardee's Food Systems elected to sponsor defined contribution plans for its full-time employees other than its manufacturing and distribution employees. The pension benefits to December 31, 1994, under the previous defined benefit plans, have been vested for the affected employees and are preserved for future retirement under regular pension commencement rules at normal or early retirement.

The status of the Corporation's pension plans was as follows:

	1994	1993	1992
Plan assets at market related value	632	577	575
Projected benefit obligations	633	598	537
Plan assets (less than) in excess of projected benefit obligations	**(1)**	**(21)**	**38**
Projected benefit obligations for supplementary retirement benefits[1]	**73**	**69**	**61**
Pension expense[2]	**32**	**31**	**24**

1 Represents unfunded obligations which, under the Canadian plan, are secured by an irrevocable letter of credit in the amount of $53 million.

2 Includes the cost of both registered and supplementary benefits.

The Corporation provides limited health benefits for eligible employees upon retirement. During 1994, these costs were approximately $3 million (1993–$3 million; 1992–$2 million). In Canadian operations, the cost of these benefits is expensed as incurred, while in U.S. operations, cost is determined on an accrual basis in accordance with U.S. reporting requirements.

25. Retirement benefits–Financial Services

Pension benefits are available to all Canadian employees of CT Financial Services under the company's contributory pension plan. The plan consists of a defined benefit section and a money purchase section. Earnings are charged with the cost of benefits earned by employees as services are rendered for both sections of the plan.

The pension plan for Canadian employees has been valued based upon the following assumptions: 8½% average annual investment return and 6½% average annual increase in compensation rates.

The status of CT Financial Services' pension plan was as follows:

	1994	1993	1992
Plan assets at market value	324	332	273
Projected benefit obligations			
Defined benefit section	2[illegible]	210	201
Money purchase section	122	115	87
	[illegible]	325	288
Plan assets (less than) in excess of projected benefit obligations	**(11)**	**7**	**(15)**
Pension expense	**11**	**11**	**10**

Employees of First Federal are covered by separate non-contributory pension plans, which offer comparable benefits and are funded by First Federal. The plans were fully funded at December 31, 1994.

CT Financial Services provides certain health benefits for eligible Canadian employees upon retirement. The cost of these benefits is expensed as incurred. During 1994, these costs were approximately $1 million (1993 and 1992–$1 million).

First Federal provides certain health benefits for eligible employees upon retirement and accounts for the cost of these benefits in accordance with U.S. reporting requirements. The amount expensed during 1994 with respect to these benefits amounted to $1 million (1993 and 1992–$1 million).

26. Business acquisition

In April 1994, Hardee's Food Systems purchased the 50% interest it did not own in a partnership holding the land and buildings of 279 Hardee's restaurants, for a cash consideration of $28 million (US $20 million). The partnership was created in 1988 as part of a sale and leaseback transaction, and Hardee's investment therein was accounted for by the equity method. The effects of the acquisition and the resulting consolidation of Hardee's investment are summarized as follows:

	Cdn $	US $
Capital assets acquired	192	139
Elimination of deferred gain	64	46
Long-term debt assumed	(211)	(153)
Elimination of equity investment	(17)	(12)
Total cash consideration	28	20

Subsequent to the acquisition, available cash resources were used to redeem the partnership debt assumed. The acquisition was accounted for by the purchase method of accounting, and earnings have been recorded from the date of acquisition.

In millions of dollars

27. Business disposal

In January 1994, Imasco, through its indirectly wholly owned subsidiary, Hardee's Food Systems, entered into an agreement to sell 84 Roy Rogers restaurants in the Philadelphia market for $29 million (US $22 million). The transaction resulted in a one-time charge to 1993 net earnings of $15 million (net of tax recovery of $9 million).

28. Operating lease commitments

The Corporation has commitments with respect to real estate operating leases, which are for terms of one to 27 years.

The minimum annual commitments under such leases and the amounts assumed by drugstore associates and other third parties are approximately as detailed in the accompanying table.

	Rental commitment	Assumed by third parties	Net rental commitment
1995	231	109	122
1996	211	98	113
1997	190	88	102
1998	152	71	81
1999	126	59	67

The minimum annual rental commitments as listed above do not reflect escalation and percentage-of-sales clauses contained in some leases. Net rentals under leases, including escalation and percentage-of sales payments, amounted to $143 million for the year ended December 31, 1994 (1993–$175 million; 1992–$172 million). The Corporation also has operating lease commitments for equipment for terms of one to 10 years, with a minimum annual rental of approximately $28 million.

29. Related party transactions

B.A.T Industries p.l.c., through the ownership of 41.3% of Imasco's common shares, is defined as a related party. Transactions with B.A.T Industries p.l.c. and its subsidiaries were as follows:

	1994	1993	1992
Fees[1]	1	1	1
Export sales of leaf tobacco	15	19	19
Royalties	–	1	1
Purchase of materials	–	–	3

1 Represents payment of fees for research and development, marketing, and manufacturing services.

30. Other information

a. Goodwill amortization charged to earnings during 1994 amounted to $61 million (1993 and 1992–$60 million) and included $6 million (1993 and 1992–$5 million) classified as operating costs.

b. A wholly owned subsidiary of the Corporation has provided guarantees to various banks in respect of certain borrowings by drugstore associates. The total amount of these guarantees at December 31, 1994 was $129 million (1993–$129 million; 1992–$112 million).

c. Indirect wholly owned subsidiaries of the Corporation which operate in the Land development segment have letters of credit outstanding that guarantee completion of work under land servicing agreements and commitments under land purchase agreements. The total amount of these letters of credit at December 31, 1994 was $45 million (1993–$43 million; 1992–$42 million).

d. During 1990, a wholly owned subsidiary of the Corporation entered into an agreement giving it the right, on an ongoing basis, to sell qualifying accounts receivable in the Tobacco segment. As at December 31, 1994, the subsidiary had sold, with limited recourse, accounts receivable for cash proceeds of $50 million (1993–$75 million; 1992–$100 million).

e. Research and development costs charged to earnings during the year amounted to $6 million (1993 and 1992–$5 million).

f. To encourage long-term share ownership, Imasco offers low interest loans to certain key executives. Eligible executives may receive five-year loans to purchase Imasco common shares in the open market or through the exercise of stock options. The total amount of loans that may be outstanding at any time to an executive cannot exceed his or her annual salary. These loans are secured by the shares purchased with such loans, according to a formula, and the interest is equal to the dividends received on the pledged shares, net of the income tax payable on the dividends. The carrying amount of outstanding share purchase loans at December 31, 1994 was $2 million (1993 and 1992–$1 million) and is classified as a long-term note receivable.

g. The Corporation and its subsidiaries are parties to claims and suits brought against them in the ordinary course of business.

In addition, certain subsidiaries acquired as part of the acquisition of Genstar Corporation are subject to numerous claims and suits, most of which are asbestos related. Certain of these claims and suits allege significant damage. In the opinion of management, all such claims and suits are adequately covered by insurance or are provided for in the financial statements or, if not so covered or provided for, the results are not expected to materially affect the Corporation's financial position. Substantially all of the costs incurred in connection with the defense of asbestos-related claims and suits have been covered by insurance proceeds. Furthermore, lawsuits have been instituted by these subsidiaries seeking to establish insurance coverage from certain carriers who have denied such coverage. Costs associated with the prosecution of the coverage lawsuits are expensed, and a portion of such costs may be recovered, should the suits succeed.

On January 13, 1995, a Statement of Claim in the name of three individuals was filed in the Ontario Court of Justice against Imperial Tobacco Limited and the two other major Canadian tobacco companies. The plaintiffs in the suit allege, among other things, that they are addicted to tobacco, that the defendants conspired to withhold information on addiction and manipulated levels of nicotine in tobacco to make it addictive, and that they are entitled to damages for losses said to be consequential to the alleged addiction. The plaintiffs are seeking to have the suit certified as a class action and to be awarded $1 million each, as well as punitive damages. The scope of the purported class is unclear but could, if plaintiffs are successful in having the suit certified as a class action, involve a large but indeterminate number of people. The lawsuit involves several complicated and novel questions of law and fact that will take years to resolve. The Corporation is unable to make a meaningful estimate of the amount or range of loss that might possibly result from an unfavourable result. Imperial Tobacco will vigorously defend its position, and, although the lawsuit is at a very early stage and it is difficult to predict the outcome of lawsuits, the Corporation believes that Imperial Tobacco has a number of valid defenses.

In millions of dollars

31. Segmented financial information

Financial information is presented according to the following industry segments:

Tobacco – Imperial Tobacco: manufactures tobacco products.

Financial Services – CT Financial Services: provides a variety of financial intermediary and asset management services and engages in real estate investment activities. A subsidiary, First Federal, provides financial intermediary and asset management services in the Northeast United States.

Restaurant – Hardee's Food Systems: operates and licenses quick-service restaurants, primarily in the United States. A wholly owned subsidiary, Fast Food Merchandisers, processes food and distributes food and paper products, primarily in the United States.

Drugstore – Shoppers Drug Mart: licenses retail operations which specialize in prescription drugs, health and beauty aids, and a broad mix of consumer products.

Land development – Genstar Development Company: conducts wholly owned and joint venture land development activities in Canada and the United States.

Other retail operations – The UCS Group: operates retail stores which specialize in tobacco products, confectionery, and reading materials and operates travel-related specialty shops.

Other – Corporate and other activities.

Foreign operations include those of the Restaurant segment, First Federal, U.S. land development, and certain other activities.

	1994	1993	1992
Revenues, net of tobacco taxes and duties			
Tobacco	1,335	1,151	1,083
Financial Services	3,754	3,703	3,999
Restaurant	2,609	2,625	2,365
Drugstore	193	181	172
Land development	82	98	96
Other retail operations	194	288	302
Intersegmental[1]	(33)	(74)	(76)
	8,134	**7,972**	**7,941**
Canada	4,923	4,649	5,057
United States	3,211	3,323	2,884
	8,134	**7,972**	**7,941**
Earnings from operations			
Tobacco	592	462	432
Financial Services	333	232	252
Restaurant	133	86	77
Drugstore	102	100	95
Land development	27	33	34
Other retail operations	(16)	(6)	(4)
	1,171	**907**	**886**
Canada	955	757	751
United States	216	150	135
	1,171	**907**	**886**

	1994	1993	1992
Additions to capital assets			
Tobacco	[illegible]	[illegible]	[illegible]
Financial Services	[illegible]	131	136
Restaurant	[illegible]	[illegible]	36
Drugstore	[illegible]	56	41
Land development	[illegible]	–	1
Other retail operations	[illegible]	4	1
	[illegible]	**296**	**296**
Amortization expense[2]			
Tobacco	[illegible]	20	21
Financial Services	[illegible]	[illegible]	82
Restaurant	[illegible]	[illegible]	109
Drugstore	[illegible]	16	[illegible]
Land development	[illegible]	–	–
Other retail operations	[illegible]	4	5
Other	[illegible]	6	6
	[illegible]	273	259
Acquisition goodwill	[illegible]	55	55
	[illegible]	**328**	**314**
Capital assets			
Tobacco	[illegible]	141	140
Restaurant	[illegible]	788	809
Drugstore	[illegible]	156	141
Land development	[illegible]	–	6
Other retail operations	12	18	19
Other	11	10	17
	1,255	**1,126**	**1,132**
Financial Services	476	469	435
	1,731	**1,595**	**1,567**
Total assets			
Tobacco	709	638	650
Financial Services	49,030	46,13[illegible]	44,265
Restaurant	[illegible]	1,116	1,078
Drugstore	262	251	243
Land development	352	317	293
Other retail operations	33	54	73
Other	285	267	244
	51,909	48,786	46,848
Goodwill	1,573	1,621	1,671
	53,482	**50,407**	**48,519**
Canada	42,172	40,354	39,601
United States	11,310	10,053	8,918
	53,482	**50,407**	**48,519**

1 Intersegmental revenues consist of purchases of Imperial Tobacco products by The UCS Group at normal wholesale prices.

2 Includes amortization expense on capital assets, goodwill, deferred charges, and other fair value allocations.

Imasco Limited
Supplementary Information
Non-consolidated Summaries of Cash Flows (unaudited)
For the years ended December 31
In millions of dollars

	1994	1993	1992
Net earnings	506	409	380
Deduct: CT Financial Services net earnings to common	(196)	(145)	(181)
Add: CT Financial Services dividend	93	93	93
Amortization	249	240	232
Other non-cash items	(9)	2	(1)
Earnings adjusted for non-cash items and CT Financial Services dividend	**643**	**599**	**523**
Changes in non-cash current assets and liabilities	30	40	(23)
Increase in other liabilities	24	25	11
Additions to capital assets	(181)	(165)	(170)
Proceeds from disposal of capital assets	71	16	19
Changes in notes receivable, investments, and other	(81)	6	30
Dividend payments	(196)	(197)	(189)
Net cash available	**310**	**324**	**201**
Acquisition of interest in real estate partnership	28	–	–
Redemption of preference shares	21	200	–
Repurchase (issue) of common shares – net	92	(2)	2
Repayment of long-term debt – net	221	81	175
Increase (decrease) in net cash balances	(52)	45	24
Net cash utilized	**310**	**324**	**201**

Imasco Limited
Quarterly Consolidated Financial Information (unaudited)
In millions of dollars, except per common share data

1994	March	June	September	December	**Total**
System sales	3,770	4,173	4,242	4,241	[illegible]
Revenues	2,176	2,393	2,421	2,395	[illegible]
Revenues, net of tobacco taxes and duties	1,855	2,081	2,102	2,096	[illegible]
Earnings from operations					
Imperial Tobacco	114	148	161	169	[illegible]
CT Financial Services	73	88	89	83	[illegible]
Hardee's Food Systems	2	47	50	34	133
Shoppers Drug Mart	20	22	26	34	102
Genstar Development Company	4	11	6	6	27
The UCS Group	(3)	(14)	1	–	(16)
	210	302	333	326	1 171
Amortization of acquisition goodwill	13	15	13	14	55
Other costs and administration	15	14	14	13	56
Interest expense	42	55	41	45	183
Provision for income taxes	48	70	91	83	292
Provision for tobacco surtaxes	7	10	11	11	39
Dividends on preference shares of subsidiary companies and non-controlling interest	10	10	10	10	[illegible]
Net earnings	75	128	153	150	[illegible]
Per common share					
Net earnings	$0.60	$1.05	$1.27	$1.26	[illegible]
Dividends	$0.39	$0.39	$0.39	$0.39	[illegible]
Market price – High	44¼	37¼	39½	40¼	
– Low	35¾	32	33	36¼	

1993	March	June	September	December	**Total**
System sales	3,833	4,158	4,230	4,232	[illegible]
Revenues	2,302	2,467	2,474	2,438	9 681
Revenues, net of tobacco taxes and duties	1,893	1,995	2,049	2,035	[illegible]
Earnings from operations					
Imperial Tobacco	99	99	127	137	462
CT Financial Services	59	48	57	68	[illegible]
Hardee's Food Systems	2	41	42	1	86
Shoppers Drug Mart	19	22	25	34	100
Genstar Development Company	10	3	9	11	33
The UCS Group	(2)	(3)	–	(1)	(6)
	187	210	260	250	907
Amortization of acquisition goodwill	13	14	14	14	55
Other costs and administration	15	7	12	12	46
Interest expense	44	44	43	40	[illegible]
Provision for income taxes	42	43	58	49	192
Dividends on preference shares of subsidiary companies and non-controlling interest	7	7	10	10	34
Net earnings	66	95	123	125	409
Per common share					
Net earnings	$0.50	$0.74	$1.00	$1.02	$3.26
Dividends	$0.37	$0.37	$0.37	$0.37	$1.48
Market price – High	41⅝	39⅞	37⅜	40⅞	
– Low	37⅛	34¼	35	36¼	

Imasco Limited
Selected Eleven Year Financial Data
For the years ended December 31
In millions of dollars, except as noted

	1994	1993	1992
Operations			
System sales (unaudited)[1]	16,426	16,453	16,210
Revenues[1]	9,385	9,681	9,908
Revenues, net of tobacco taxes and duties[1]	8,134	7,972	7,941
Amortization expense	346	328	314
Earnings from operations[1]	1,171	907	886
Interest expense	183	171	189
Provision for income taxes	292	192	180
Provision for tobacco surtaxes	39	–	–
Earnings before extraordinary items	506	409	380
Net earnings	506	409	380
Earnings per common share before extraordinary items	$4.18	$3.26	$2.97
Net earnings per common share	$4.18	$3.26	$2.97
Dividend record			
On preference shares[2]	11	20	27
On common shares	185	177	162
Per common share	$1.56	$1.48	$1.36
Cash from continuing operations	930	812	845
Additions to capital assets	280	296	296
Financial position			
Total assets – Financial Services[3]	49,036	46,132	44,265
Total assets	53,482	50,407	48,519
Long-term debt[4]	1,927	1,896	1,959
Shareholders' equity			
6% Cumulative Preference Shares	–	6	6
Series D Preference Shares	135	150	150
Series C Preference Shares	–	–	200
Common shareholders[5]	3,202	2,944	2,702
Per common share	$27.43	$24.70	$22.69
Financial ratios			
Return on average common shareholders' equity[6]	16.1%	13.8%	13.7%
Interest coverage ratio	5.8x	4.7x	4.1x
Debt to total capital ratio[7]	36.6%	37.9%	39.0%
Common dividend payout ratio[8]	37.3%	45.4%	45.8%

1 Excludes the results of Peoples Drug Stores, Incorporated, which were reported separately as discontinued operations. During 1990, up to its disposition on September 17, 1990, it reported revenues of $870 million and earnings from operations of $9 million.

2 During the last five fiscal years, the Corporation has paid dividends on its outstanding preference shares on an annualized basis per share as follows: (1) 6% Cumulative Preference Shares – $0.29 to November 1994, when they were repurchased; (2) Series C Preference Shares – $1.84 from the date of issue on July 17, 1986 to the date of redemption on July 17, 1993; and (3) Series D Preference Shares, from date of issue on March 22, 1989 to June 30, 1994 – $39,500 and from July 1, 1994 after the redemption of 30 shares – $34,500.

3 Excluding goodwill.

4 Reflects the refinancing of $200 million Series C Preference Shares in 1993 and $300 million of Imasco Financial Corporation preference shares in 1990.

5 Common shareholders' equity includes unrealized gain or loss on foreign currency translation.

6 Earnings before extraordinary items less dividends on preference shares as a percentage of average common shareholders' equity.

7 Long-term debt as a percentage of long-term debt and total equity.

8 Dividend per common share as a percentage of earnings per common share before extraordinary items.

1991	1990	1989	1988	1987	1986	[illegible]	[illegible]
15,507	14,977	13,252	11,720	10,901	9,150	[illegible]	[illegible]
9,820	9,601	8,431	7,263	6,746	5,496	[illegible]	[illegible]
7,908	7,856	6,941	6,107	5,630	4,453	[illegible]	[illegible]
291	270	239	212	180	[illegible]	[illegible]	[illegible]
880	884	945	[illegible]	779	[illegible]	[illegible]	[illegible]
224	239	224	243	[illegible]	[illegible]	[illegible]	[illegible]
180	181	204	[illegible]	67	[illegible]	[illegible]	[illegible]
–		–					
332	295	366	314	[illegible]	[illegible]	[illegible]	[illegible]
332	295	366	204	[illegible]	[illegible]	[illegible]	[illegible]
$2.56	$2.25	$2 87	[illegible]	$2 24	[illegible]	[illegible]	[illegible]
$2.56	$2 25	$2 87	$1 59	[illegible]	[illegible]	[illegible]	[illegible]
27	27	24	[illegible]	[illegible]	[illegible]		[illegible]
152	153	134	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$1.28	$1.28	$1 12	$1 04	[illegible]	[illegible]	[illegible]	[illegible]
760	626	520	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
246	308	412	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42,188	35,087	32,666	29,219	[illegible]	[illegible]		
46,420	39,574	37 510	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2,078	2,387	2,188	2,488	[illegible]	[illegible]	[illegible]	[illegible]
6	6	6	6	[illegible]	[illegible]		[illegible]
150	150	150					
200	200	200	200	[illegible]	[illegible]		
2,457	2,322	2.213	[illegible]	2,007	[illegible]	[illegible]	[illegible]
$20.63	$19.49	$18 55	$16 89	$16 83	[illegible]	[illegible]	[illegible]
12.7%	11.8%	16 2%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3 4x	3 2x	3 8x	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 5%	47 1%	46 0%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50.0%	56.9%	39.0%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Imasco Limited
Operating Company Statistics – Six Year Review
For the years ended December 31
In millions of dollars, except as noted

	1994	1993	1992	1991	1990	1989
Imperial Tobacco						
Revenues[1]	2,586	2,860	3,050	2,953	2,708	2,386
Revenues, net of tobacco taxes and duties[1]	1,335	1,151	1,083	1,041	963	896
Earnings from operations	592	462	432	397	367	334
Inventories	450	353	398	392	380	381
Capital assets	151	147	140	123	125	119
Additions to capital assets	31	28	36	22	23	23
CT Financial Services[2]						
Investment income	3,320	3,321	3,620	4,006	4,028	3,540
Provision for investment losses	140	205	236	115	70	30
Net investment income after provision for investment losses	975	845	813	842	771	719
Earnings from operations (pre-tax earnings)	333	232	252	320	318	357
Net earnings	222	166	193	222	212	246
Net earnings attributed to common shareholders	196	145	181	210	201	240
Per common share						
Net earnings	$1.64	$1.22	$1.52	$1.76	$1.70	$2.03
Dividends paid	$0.80	$0.80	$0.80	$0.80	$0.80	$0.75
Shareholders' equity – fully diluted	$16.59	$15.57	$15.04	$14.11	$13.15	$12.25
Assets under administration (at book value)	182,415	160,062	135,044	124,008	103,612	74,096
Corporate assets	49,036	46,132	44,265	42,188	35,087	32,666
Loans	37,010	34,466	33,061	31,203	25,518	24,201
Deposits	42,499	40,420	39,181	37,594	32,475	30,403
Shareholders' equity	2,343	2,220	1,941	1,829	1,711	1,551
Return on average common shareholders' equity – fully diluted	10.1%	7.9%	10.2%	12.8%	13.2%	17.3%
Return on average corporate assets	0.47%	0.36%	0.45%	0.56%	0.63%	0.79%
Investment loss experience as a percentage of investments	0.256%	0.437%	0.224%	0.144%	0.129%	0.077%
Allowance for investment losses as a percentage of non-performing investments	73%	55%	37%	34%	47%	79%
Shareholders' equity and non-controlling interest as a percentage of total assets	5.1%	5.2%	4.8%	4.8%	5.4%	5.3%
Estimated risk-weighted capital ratios[3]						
Tier 1 capital	8.88%	8.59%	7.31%	7.01%	7.97%	7.69%
Tier 2 capital	2.30%	1.79%	1.13%	1.15%	1.40%	1.52%
Total capital	11.18%	10.38%	8.44%	8.16%	9.37%	9.21%
Financial services branches – Canada	410	389	373	349	338	331
– United States	81	82	68	67	–	–
Automated banking machines – Canada	860	643	441	323	296	275
– United States	64	63	51	43	–	–

1 Comparability is affected by the replacement of the Federal Sales Tax (FST) by the Goods and Services Tax (GST), effective January 1, 1991. Since the effective date, reported amounts exclude the GST, while the FST was previously included.

2 Statistics presented have been extracted from CT Financial Services' annual reports for the years ended December 31, 1994 and prior.

3 Represents estimated risk-weighted capital ratios for CT Financial Services.

Imasco Limited
Operating Company Statistics – Six Year Review
For the years ended December 31
In millions of dollars, except as noted

	1994	1993	1992	1991	1990	1989
Shoppers Drug Mart						
System sales (unaudited)[1]	3,230	3,181	3,089	2,934	2,844	2,598
Revenues	193	181	172	162	148	136
Earnings from operations	102	100	95	89	82	72
Capital assets	176	158	141	130	124	114
Additions to capital assets	54	50	41	31	34	27
Number of stores	689	690	678	671	645	633
Genstar Development Company						
Revenues	82	98	96	67	93	125
Earnings from operations	27	33	34	30	36	55
Land inventory	256	230	220	218	219	193
Land inventory (acres)	21,622	21,160	20,406	19,035	18,802	18,972
The UCS Group						
Revenues[1]	194	288	302	305	315	286
Earnings (loss) from operations[2]	(16)	(6)	(4)	(2)	9	8
Inventories	13	33	44	47	45	37
Capital assets	12	18	19	22	23	21
Additions to capital assets	[illegible]	4	2	5	6	5
Number of stores	250	476	501	526	533	531
Hardee's Food Systems (In millions of **US dollars**, except as noted)						
System sales (unaudited)	4,838	4,957	4,753	4,376	4,146	3,503
Revenues						
Sales						
Company restaurants	982	1,127	1,171	1,144	1,201	920
Food, supplies, and other	829	814	701	611	569	523
Service and licence fees	98	94	84	75	77	66
	1,909	2,035	1,956	1,830	1,847	1,509
Earnings from operations[3]	9	67	63	40	62	101
Inventories	58	60	58	56	58	57
Capital assets	642	595	637	677	739	465
Additions to capital assets	69	64	74	53	124	131
Number of restaurants						
Company-operated	1,086	1,197	1,234	1,249	1,352	1,086
Licensed	2,920	2,863	2,785	2,765	2,670	2,212
	4,006	4,060	4,019	4,014	4,022	3,298

1 Comparability is affected by the replacement of the Federal Sales Tax (FST) by the Goods and Services Tax (GST), effective January 1, 1991. Since the effective date, reported amounts exclude the GST, while the FST was previously included.

2 1994 includes a restructuring charge of $12 million.

3 1993 includes a pre-tax charge of US $18 million related to the sale of 84 restaurants in Philadelphia.

Imasco Limited

600 de Maisonneuve Boulevard West
20th Floor
Montréal, QC H3A 3K7

Purdy Crawford, Chairman and Chief Executive Officer
Jean-Louis Mercier, Vice-Chairman
Brian M. Levitt, President and Chief Operating Officer
Raymond E. Guyatt, Executive Vice-President and Chief Financial Officer
Roy R. Schwartz, Senior Vice-President
Ron Farrell, Vice-President, Administration
Denis Faucher, Vice-President and Controller
Luc Jobin, Vice-President, Business Development
Hugh W. McAdams, Vice-President and Treasurer
Peter McBride, Vice-President, Communications and Investor Relations
Denise Perrault, Vice-President, Human Resources
Jodi White, Vice-President, Corporate Affairs
Rodrick K. MacKinnon, Secretary and Counsel
Édouard Darche, Assistant Treasurer
Pierre Leclerc, Assistant Secretary

Imperial Tobacco

3810 St. Antoine Street West
Montréal, QC H4C 1B5

R. Donald Brown, Chairman, President, and Chief Executive Officer
Michael A. Courtney, Executive Vice-President and Chief Financial Officer
Roger S. Ackman, Vice-President, General Counsel, and Secretary
Robert Bexon, Vice-President, Marketing
Marius Dagneau, Vice-President, Human Resources
Pierre Duhamel, Vice-President and Controller
Patrick J. Dunn, Vice-President, Research and Development
Thomas F. Lee, Vice-President, Materials Management
Yvon Lessard, Vice-President, Manufacturing

CT Financial Services Inc.

161 Bay Street
Toronto, ON M5J 2T2

Purdy Crawford, Chairman
W. Edmund Clark, President and Chief Executive Officer
John F. Schucht, Senior Executive Vice-President, Banking Operations
Christopher J. Stringer, Executive Vice-President, Corporate Services
William C. Thornhill, Executive Vice-President, Products
Gary G. Brent, Senior Vice-President, Investment Management
Robert J. Cummings, Senior Vice-President, Corporate and Commercial Financial Services
Susan F. Dabarno, Senior Vice-President, Insurance Services
Paul W. Derksen, Senior Vice-President and Chief Financial Officer
J. Brent Kelman, Senior Vice-President, President, Truscan Realty Limited
Joseph M. Morabito, Senior Vice-President, Banking Operations, Western Canada
John D. Steep, Senior Vice-President, Banking Operations, Metro Toronto and Eastern Canada
Duncan F. Tilly, Senior Vice-President, Executive Resources
Gwyn E. Williams, Senior Vice-President, Banking Operations, Central Ontario
Mike D. Woeller, Senior Vice-President, Information Services
Alan D. Wolfson, Senior Vice-President, Marketing
M. Suellen Levi, Vice-President, Human Resources
Dianne Smith-Sanderson, Vice-President, Advertising and Corporate Communications
Diane E. Walker, Vice-President, General Counsel, and Secretary

First Federal Savings and Loan Association of Rochester

One First Federal Plaza
Rochester, NY 14614-1996, U.S.A.

Thomas N. Borshoff, Chairman, President, and Chief Executive Officer
Thomas J. Mullin, Vice-Chairman and Senior Executive Vice-President
Mark H. Chaplin, Executive Vice-President, Consumer Financial Services
Linda L. Williams, Executive Vice-President and Chief Financial Officer

Hardee's Food Systems, Inc.

1233 Hardee's Boulevard
Rocky Mount, NC 27804-2815, U.S.A.

Robert F. Autry, President and Chief Executive Officer
Donald E. Doyle, Chief Operating Officer
Breen O. Condon, Executive Vice-President, General Counsel, and Secretary
Richard L. Hall, Executive Vice-President and Chief Financial Officer
Gerald L. McGinnis, Executive Vice-President, Restaurant Development
Al Schnitzlein, Chief Operating Officer, Roy Rogers Division
Deborah Hollis, Senior Vice-President, Human Resources
James L. Jaffre, Senior Vice-President, International
Brent Michaels, Senior Vice-President, Operations Services and Training
James Speed, Senior Vice-President, Controller

Fast Food Merchandisers, Inc.

Rocky Mount, NC

Robert F. Autry, Chief Executive Officer
F. Winslow Goins, President
Dean Spangler, Executive Vice-President, Operations

Shoppers Drug Mart/Pharmaprix

225 Yorkland Boulevard
Toronto, ON M2J 4Y7

Murray B. Koffler, C.M., Honorary Chairman
David R. Bloom, Chairman and Chief Executive Officer
Herbert R. Binder, President and Chief Operating Officer
Dale Daley, Senior Executive Vice-President, Operational Services
Marvin A. Goldberg, Senior Executive Vice-President, Legal and Corporate Affairs, and Secretary
Albert A. Krakauer, Senior Executive Vice-President, Professional and Organizational Development
Kenneth A. Sloan, Senior Executive Vice-President, Finance and Planning, and Chief Financial Officer
Stanley A. Thomas, Senior Executive Vice-President, Marketing
Fred K. Van Laare, Senior Executive Vice-President, Operations
Louis M. Goelman, Executive Vice-President, Logistics
Gary MacPhee, Executive Vice-President, Atlantic
Claude Allard, Executive Vice-President, Pharmaprix
Marvin Kopstick, Executive Vice-President, Ontario East
Brian P. Relph, Executive Vice-President, Ontario Central
Isadore Snyder, Executive Vice-President, Ontario West
Cliff Proceviat, Executive Vice-President, Prairies
Terry Morrison, Executive Vice-President, B.C.
Elie Ajram, Senior Vice-President, Strategic Planning
Bruce A. Burgetz, Senior Vice-President, Information Technology
Raymond A. Hallett, Senior Vice-President, Human Resources
Arthur Konviser, Senior Vice-President, Public Affairs
Stephen J. Langford, Senior Vice-President, Merchandising
Gordon Stromberg, Senior Vice-President, Advertising
Roman P. Niemy, President, Corporate Brands
Barbara E. Brocklebank, Vice-President, Beauty Products
Terry L. Creighton, Vice-President, Government Affairs and Environmental Issues

Genstar Development Company

200 Granville Street
Vancouver, BC V6C 1S4

Les Cosman, Chairman and Chief Executive Officer
Frank L. Thomas, President and Chief Operating Officer
Brian K. Laidlaw, Executive Vice-President
Gary W. Harrison, Senior Vice-President

The UCS Group

50 Overlea Boulevard
Toronto, ON M4H 1B9

David B. Stewart, President and Chief Executive Officer

Imasco Holdings, Inc.

Two Blue Hill Plaza
Pearl River, NY 10965-8588, U.S.A.

Lloyd J. Schnell, President

Imasco S.A.

Royal Rome 1
3, boulevard Royal
L-2449 Luxembourg

Malcolm G. Swartz, Managing Director

Imasco B.V.

Herengracht 495
1017 BT Amsterdam
The Netherlands

John F. Mathers, President and Managing Director

Luxembourg Branch

Royal Rome 1
3, boulevard Royal
L-2449 Luxembourg

Malcolm G. Swartz, Managing Director

Incorporation

Imasco Limited was incorporated under federal charter on April 3, 1912 and continued under the Canada Business Corporations Act on August 6, 1976.

Annual meeting

The Annual and Special Meeting of Imasco Limited Shareholders will be held at 2:30 p.m. on May 2, 1995 at The Queen Elizabeth Hotel, 900 René-Lévesque Boulevard West, Montréal, Québec.

Shareholder and analyst contact

Peter McBride, Vice-President, Communications
and Investor Relations
[illegible]14) 982 6407

Other enquiries

masco
[illegible]600 de Maisonneuve West/Ouest
[illegible]or/20e étage
Montréal, QC H3A 3K7
[illegible]14) 982 9111
[illegible] 982 9369

[illegible] vous désirez recevoir le rapport annuel en français, veuillez com-[illegible]niquer avec le Secrétaire à l'adresse ci-haut.

Stock exchange listings

Montréal, Toronto, Vancouver

Ticker symbol

[illegible]

Reporting calendar

[illegible] year-end is December 31. The annual report is mailed in March, and interim reports are mailed in May, August, and November.

Dividend dates

Quarterly: at the end of March, June, September, and December.

Debentures

- 11.85% due February 1996, interest payable February 15 and August 15;
- 10½% due November 1996, interest payable May 20 and November 20;
- 10½% due April 1998, interest payable April 28 and October 28;
- 10½% due December 2001, interest payable June 18 and December 18;
- 9.85% due April 2002, interest payable April 22 and October 22;
- 8.375% due June 2003, interest payable June 23 and December 23.

Notes

- Medium-term notes, interest payable February 15 and August 15.

Transfer agent and registrar

Montreal Trust Company
Stock Transfer Services
Place Montréal Trust
1800 McGill College Avenue, 7th Floor
Montréal, QC H3A 3K9
(514) 982 7555

Montreal Trust is responsible for the maintenance of shareholder records and the issue, transfer, and cancellation of stock certificates. Transfers can be effected in their Montréal, Halifax, Toronto, Winnipeg, Regina, Calgary, and Vancouver offices. Montreal Trust also distributes dividends and shareholder communications. Enquiries with respect to these matters, and corrections to shareholder information, should be addressed to Montreal Trust, Stock Transfer Services.

Dividend reinvestment and share purchase plan

Imasco maintains a dividend reinvestment and share purchase plan for the benefit of common shareholders. Under the plan, eligible shareholders can elect to invest their dividends in additional common shares. They can also increase their holdings by making optional cash payments, subject to certain quarterly limits. In both cases, the brokerage fees are paid by Imasco. Further information on the plan can be obtained by contacting Montreal Trust, Dividend Reinvestment Services, at (514) 982 7666.

Direct dividend deposit service

For convenience and security, Imasco offers a direct dividend deposit service to its Canadian shareholders. The dividend payments are transferred electronically to the shareholder's account with a financial institution on the date they become due. Shareholders wishing to take advantage of this service should direct their request to Montreal Trust, Stock Transfer Services.

Payments of dividends to U.S. residents

Shareholders with addresses of record in the United States receive dividends in US funds. The dividend amount is converted at the Bank of Canada noon rate of exchange on the record date. Canadian withholding tax is deducted.

Shareholdings

On December 31, 1994, there were 8,040 registered holders of Imasco common shares. Ownership of common shares was distributed by country as follows:

	Common Shares
Canada	56.13%
United States	2.29%
U.K.	41.55%
Other countries	0.03%
	100%

Auditors

Deloitte & Touche
Chartered Accountants
1 Place Ville Marie, Suite 3000
Montréal, QC H3B 4T9

50% Total recovered fiber
20% Post-consumer fiber

This report is completely recyclable

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Imasco

March 27, 1995

Dear Shareholder:

On behalf of the Board of Directors and management of Imasco Limited, I invite you to attend the Annual and Special Meeting of Shareholders to be held on Tuesday, May 2, 1995 at 2:30 p.m. at the Queen Elizabeth Hotel, Jolliet-Duluth-MacKenzie Room, Montréal, Québec.

The Notice of Meeting, Management Proxy Circular and a Form of Proxy are enclosed.

If you do not plan to attend, please complete the enclosed Form of Proxy and return it in the envelope furnished for that purpose.

Yours sincerely,

Purdy Crawford

Purdy Crawford
Chairman and
Chief Executive Officer

Notice of Annual and Special Meeting of Shareholders

Notice is hereby given that the Annual and Special Meeting of Shareholders of Imasco Limited (the "Corporation" or "Imasco") will be held at the Queen Elizabeth Hotel, Jolliet-Duluth-MacKenzie Room, 900 René-Lévesque Boulevard West, Montréal, Québec, Canada, on Tuesday, May 2, 1995 at 2:30 p.m., local time, for the following purposes:

1. To receive the financial statements of the Corporation for the financial year ended December 31, 1994 and the auditors' report thereon;

2. To elect the directors;

3. To appoint the auditors;

4. To consider and, if thought fit, approve with or without variation Special Resolution I, substantially in the form set forth in Exhibit A to the accompanying Management Proxy Circular ("Circular"), amending the Articles of the Corporation by:

   (a) subdividing its authorized Common Shares on a two-for-one basis thereby increasing the number of authorized Common Shares from 120,500,000 to 241,000,000 shares;

   (b) subdividing the issued Common Shares on a two-for-one basis;

5. To consider and, if thought fit, approve with or without variation Special Resolution II, substantially in the form set forth in Exhibit B to the accompanying Circular, amending the Articles of the Corporation by allowing the directors to appoint directors between shareholders' meetings in accordance with the laws governing the Corporation; and

6. To transact such other business, if any, as may properly be brought before the Meeting.

By Order of the Board

Rodrick K. MacKinnon
Secretary

Montréal, March 27, 1995

Note: If you are unable to attend the Meeting in person, please complete, sign and date the enclosed Form of Proxy and return it in the envelope provided for that purpose. Proxies must be received by Montreal Trust Company, Stock Transfer Services, P.O. Box 1900, Station B, Montréal, Québec, H3B 3L6 not later than 5:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof.

Management Proxy Circular

(Information as of March 1, 1995, unless otherwise indicated)

Solicitation of proxies

This Management Proxy Circular is provided in connection with the solicitation of proxies by management of the Corporation for use at the Annual and Special Meeting of Shareholders (the "Meeting") or at any adjournment thereof. The Meeting will be held at the Queen Elizabeth Hotel, Jolliet-Duluth-MacKenzie Room, 900 René-Lévesque Boulevard West, Montréal, Québec, Canada, on Tuesday, May 2, 1995 for the purposes set forth in the foregoing Notice of Meeting. The solicitation is being made primarily by mail, but proxies may also be solicited by directors, officers or employees of Imasco. The cost of the solicitation will be borne by Imasco.

Appointment of proxy

A shareholder may appoint a person other than the persons designated in the accompanying Form of Proxy, all of whom are directors of the Corporation, to attend and vote for such shareholder at the Meeting and may do so either by striking out the names in the Form of Proxy and inserting such person's name in the blank space provided or by completing another Form of Proxy. Proxies must be received by Montreal Trust Company, Stock Transfer Services, P.O. Box 1900, Station B, Montréal, Québec, H3B 3L6 not later than 5:00 p.m. on the last business day preceding the day of the Meeting or any adjournment thereof.

Revocation of proxy

A shareholder may revoke the proxy at any time by instrument in writing executed by the shareholder, or by the shareholder's attorney authorized in writing, and deposited either at the registered office of Imasco at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof, or with the Chairman of the Meeting on the day of the Meeting or any adjournment thereof, or in any other manner permited by law.

Action to be taken under proxy

Common Shares of Imasco that are represented by proxies in favour of management in the accompanying Form of Proxy, or by any other validly executed proxies, will be voted or withheld from voting, in accordance with instructions indicated thereon, on any ballot that may be called at the Meeting. If no instructions are indicated, Common Shares represented by proxies in favour of management will be voted for the election of management's nominees as directors, for the appointment of Deloitte & Touche as auditors, for the passing of Special Resolution I and Special Resolution II, and at the discretion of the proxy holder in respect of amendments to any of the foregoing matters or on such other business as may properly be brought before the Meeting. Should any nominee named herein for the office of director become unable to accept nomination or election, it is intended that the person acting under proxy in favour of management will vote for the election in his or her stead of such other person as management of the Corporation may recommend. Management has no reason to believe that any of the said nominees will be unable to serve if elected to office.

Confidential Voting

Proxies are tabulated by Montreal Trust Company, the transfer agent of Imasco, in such a manner as to preserve the confidentiality of individual shareholder votes. Proxies would not be submitted to management of the Corporation unless there is a proxy contest, a shareholder has made a written comment on the proxy form intended for management or it is necessary in order to determine a proxy's validity or to enable management and/or the Board to meet their legal obligations to shareholders or to discharge their legal duties to Imasco.

Voting shares

On March 1, 1995, Imasco had 116,704,223 Common Shares outstanding. Each holder of Common Shares is entitled to one vote for each Common Share registered in his or her name at the close of business on March 15, 1995 (the "Record Date"). However, a transferee of Common Shares acquired since the Record Date shall be entitled to vote at the Meeting if he or she produces properly endorsed share certificates for such shares or otherwise establishes that he or she owns such shares and demands, not later than 10 days before the Meeting, that his or her name be included in the list of shareholders entitled to receive the Notice of Meeting.

Principal holder

On March 1, 1995, B.A.T Industries p.l.c. beneficially owned 48,200,832 Common Shares representing 41.3% of the outstanding Common Shares. To the knowledge of the directors and officers of the Corporation, no other person beneficially owns or exercises control or direction over more than 10% of the outstanding Common Shares.

Election of directors

Thirteen of the current members of the Board are standing for re-election at the Meeting. Each director elected at the annual meeting will hold office until the next succeeding annual meeting unless, prior thereto, he or she resigns or the office of such director becomes vacant by death, removal or other cause.

Nominees for election as directors

Nominee and municipality of residence	Principal occupation, or major positions and offices held with Imasco or its significant affiliates	Director since	Common Shares of Imasco beneficially owned or over which control is exercised on March 1, 1995[1]
1. Robert F. Autry Rocky Mount, North Carolina	President and Chief Executive Officer, Hardee's Food Systems, Inc., a wholly-owned subsidiary of Imasco	1991	308[2]
2. David R.Bloom Thornhill, Ontario	Chairman and Chief Executive Officer, Shoppers Drug Mart Limited, a wholly-owned subsidiary of Imasco	1983	49,894
3. R. Donald Brown Westmount, Québec	Chairman, President and Chief Executive Officer, Imperial Tobacco Limited, a wholly-owned subsidiary of Imasco	1993	16,946
4. Purdy Crawford Westmount, Québec	Chairman and Chief Executive Officer of Imasco	1973	89,459
5. Nan-b de Gaspé Beaubien Westmount, Québec	Vice-Chair, Telemedia Corp., a North American communications company	1987	1,300
6. Raymond E. Guyatt, C.A. Westmount, Québec	Executive Vice-President and Chief Financial Officer of Imasco	1990	27,676
7. Charles H. Hantho Montréal, Québec	Chairman, Dominion Textile Inc., a textile manufacturing company	1993	1,376
8. Brian M. Levitt Westmount, Québec	President and Chief Operating Officer of Imasco	1989	32,369
9. Russell E. Palmer Bryn Mawr, Pennsylvania	Chairman and Chief Executive Officer, The Palmer Group, corporate investors	1989	1,850
10. Angela C. Peters Halifax, Nova Scotia	Corporate Director	1987	1,374
11. J. Robert S. Prichard, O.C. Toronto, Ontario	President, University of Toronto	1993	1,600
12. Bernard A. Roy, Q.C. Nun's Island, Québec	Senior Partner, Ogilvy Renault, a law firm	1989	1,200
13. Ronald D. Southern, C.M., MBE Calgary, Alberta	Chairman and Chief Executive Officer, ATCO Ltd. and Canadian Utilities Ltd., companies engaged primarily in utilities and energy-related industries	1993	1,850

[1]This information, not being within the knowledge of Imasco, has been provided by the respective directors.

[2]In addition to these shares, Mr. Autry participates in a long-term supplementary benefit plan under which his retirement income will be based on units, which are valued by reference to an equivalent number of Common Shares of Imasco (28,729 units as of March 1, 1995).

Human Resources Committee

The Human Resources Committee (the "HR Committee") of the Board of Directors is presently composed of the following four non-executive directors: Russell E. Palmer (Chair), Nan-b de Gaspé Beaubien, Angela C. Peters, and Ronald D. Southern. Messrs. Murray B. Koffler and William R. Bennett retired from the Board of Directors and the HR Committee on April 28, 1994 and Messrs. Charles H. Hantho, J. Robert S. Prichard and Bernard A. Roy ceased to

be members of the HR Committee on that date. These former members were all non-executive directors of Imasco, except for Mr. Koffler who was an officer of a subsidiary of Imasco until 1986 and its honorary chairman until 1994.

Human Resources Committee Report on Executive Compensation

Imasco's mission is to build value for its shareholders as a leading consumer products and services growth company in North America. In this context, a key long-term financial objective is to provide shareholders with a superior total return, as measured by dividends and increases in the Common Share price.

Imasco has developed a management system which emphasizes the autonomy of its operating companies[1] in the context of a disciplined overall framework, as well as continuous and open communication between operating company leaders and the corporate centre. The senior management of each operating company is accorded a high degree of autonomy to manage its business toward agreed short, medium and long-term objectives. The corporate centre monitors the financial and operating results of the operating companies as well as their strategic planning and succession planning. The corporate centre is also responsible for the allocation of capital and the overall growth and development of Imasco.

The recruitment, retention and motivation of performance-oriented executives is critical to the achievement of Imasco's objectives. The HR Committee is responsible, among other things, for causing to be formulated and for monitoring the implementation and effectiveness of compensation policies to ensure that Imasco and its operating companies are able to recruit, retain and motivate such executives and that their interests are aligned with the interests of Imasco's shareholders. As part of this mandate, the HR Committee determines the compensation of Imasco executives who are members of the Imasco Board and of the leaders of Imasco's operating companies, some of whom are also members of the Imasco Board. The compensation of other Imasco executives is determined by the Corporation's Compensation Committee[2] in accordance with policies reviewed by the HR Committee. The HR Committee regularly reports to the Imasco Board on compensation issues.

To achieve its compensation policy objectives, Imasco has developed over time an executive compensation program with the following principal elements:

1. Cash incentives for the achievement of annual and medium-term performance objectives which support growth in Imasco's dividends and Common Share price. These measures include the rate of growth in earnings per Common Share and return on common shareholders' equity;

2. Significant holdings of Common Shares by senior executives to align the interests of management and shareholders; and

3. An increasing proportion of compensation "at risk" as the level of responsibility of an executive increases.

To maintain the effectiveness and competitiveness of its compensation program, Imasco conducts an annual review of salary and total short-term cash compensation levels. The overall compensation design is also periodically evaluated so that the Corporation's compensation policy continues to support key business strategies and reward their successful achievement. To ensure that changes in circumstances do not frustrate the achievement of compensation policy objectives, the HR Committee or Compensation Committee, as the case may be, generally retains a broad discretion to take into account all relevant factors in determining the final compensation of executive officers under incentive plans. When considered necessary or appropriate to achieve compensation policy objectives, this discretion may be exercised to amend performance targets or to otherwise modify the application of plan provisions. By reserving a measure of flexibility, the committees are empowered to use their business judgment and act in the best interests of the Corporation with respect to these compensation matters. No such discretion was exercised with respect to executive officers[3] for 1994.

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[1] Imperial Tobacco, Hardee's Food Systems, Shoppers Drug Mart/Pharmaprix, Genstar Development Company and The UCS Group.

[2] The Compensation Committee is composed of the Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice-President and Chief Financial Officer, and the Vice-President, Human Resources.

[3] For purposes of this Management Proxy Circular, "executive officers" means the Chairman and Chief Executive Officer, President and Chief Operating Officer, Executive Vice-President and Chief Financial Officer, Senior Vice-President and Vice-Presidents of Imasco. The term also includes the leaders of Imperial Tobacco and CT Financial (Messrs. R. Donald Brown and W. Edmund Clark respectively) who are considered to perform a policy-making function with respect to Imasco due to the significant contributions by their companies to the overall earnings of Imasco.

Particulars with respect to the manner in which salaries are determined and descriptions of applicable incentive plans, retirement plans and other benefits are provided below. The discussion in this HR Committee report relates to executive officers of Imasco, other than the leader of CT Financial Services ("CT Financial")[4]. The management of CT Financial and its subsidiaries is the ultimate responsibility of their respective boards of directors. Therefore, the responsibility for formulating the compensation policies of CT Financial and its subsidiaries is discharged by the human resources committees of their boards.

Salary

Each year, salary ranges for executive officers are determined by the HR Committee or the Compensation Committee, as the case may be, after a review of economic data and surveys conducted by independent compensation consultants. The comparator group consists of other major Canadian corporations, with an emphasis on those which have a history of earnings growth and high total return to shareholders, as well as those with positions and overall compensation structures comparable to those at Imasco. The corporations represent many sectors of the economy, including consumer products and services. The HR Committee sets the salary ranges for the Named Executives at the average for Imasco's comparator group, while setting the range for total compensation (which includes the performance-linked incentives described below)[5] at the top 10%, thereby providing strong incentives to reach financial targets. For less senior executive officers, the salary range is directed towards the top 25% of the group with the target for total compensation at the top 10%. Based on Imasco's competitive position in December 1993, no changes were made to salary ranges. Individual salaries for executive officers are set within the appropriate salary range, based on an executive's performance, the length of time in a position and other relevant factors.

Short-Term Incentives

Under Imasco's Incentive Plan (the "Short-Term Incentive Plan"), which has been in effect for many years, pay-out is tied to specific annual objectives established at the beginning of the fiscal year. Corporate centre executives receive full incentive if Imasco reaches its planned earnings per share ("EPS"). If Imasco does not reach its planned EPS, a graduated percentage of incentive can be earned only if: (i) a specified minimum percentage of objective is reached; and (ii) the EPS achieved represents not less than a specified minimum rate of growth over the previous year's EPS. For leaders of operating companies, the payment of incentives is dependent primarily upon their companies' respective earnings from operations and, to a lesser extent, on other performance factors relating to their strategic direction and operations. The incentive consists of a cash bonus which ranges from 30% to 62.5% of salary, depending upon the level of the executive officer. For 1994, full incentives were paid to Imasco's executive officers based upon the achievement of performance objectives.

Medium-Term Incentives

To reinforce the commitment of executives to achieving sustained earnings growth and profitability and to enhance their identification with shareholders' interests, Imasco adopted an Executive Medium-Term Bonus Plan in 1991. Executives who participate in this plan cease their participation in the Executive Retiring Allowance Plan described below. Under the Executive Medium-Term Bonus Plan, performance units are awarded to executives annually, based on percentages of salary that vary from 12% to 25%, depending upon the level of the executive. Financial objectives are established by the HR Committee for the ensuing three year performance period. The performance units are fully "at risk" since the pay-out under the Plan is determined at the end of the three year performance period by multiplying each executive's performance units by a factor which ranges from a low of 0 to a high of 3, depending upon the level of achievement of these objectives for the period. There is therefore an array of possible performance results, rather than a specified performance target. Any amount so earned is paid in cash at the end of the three year period. Based upon Imasco's performance of 18.00% average annual EPS growth and 14.53% average annual return on common shareholders' equity ("ROE") for the 1992 -1994 cycle, the pay-out factor for corporate centre executives was 3.0 in 1994.

Long-Term Equity-Based Incentives

Imasco also has certain equity-based arrangements that promote stock ownership by executives in order to directly align their interests with shareholders.

Executive Long-Term Stock Benefit Plan. The Executive Long-Term Stock Benefit Plan achieves this goal by providing supplementary retirement income that is based on annual corporate performance over an executive's career, as well as on the value of Imasco shares. If pre-established performance goals are met during a financial

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[4] Imasco owns approximately 98% of the common shares of CT Financial. The remuneration of Mr. Clark is described in note 6 to the Summary Compensation Table.

[5] Stock option grants and exercises are not taken into account when comparing the total compensation of Imasco to its comparator group.

year (the goals are the same as for the Short-Term Incentive Plan), a contribution is made on behalf of an executive which varies from 18% to 37.5% of salary according to employment level. The contribution is invested in Common Shares of Imasco[6] that are held in trust until an executive's retirement. Fifty percent of the shares vest immediately, with the balance vesting gradually with age and service, starting at age 55. For 1994, a full contribution was made for all executive officers based upon the attainment of performance goals.

Stock Option Plan[7]. The number of options awarded to executives each year is based on salary levels, for reasons of internal equity, and individual performance. Grants are not related to the number of options already held by an executive. The options vest after two years and have a maximum term of 10 years from the date of grant, and their exercise price is equal to the closing price of Imasco Common Shares on the last trading day prior to the grant. Their value to executives therefore depends on increases in the market price of the shares over the term. Options are not transferable and may be exercised only for so long as the optionee remains an employee, subject to certain exceptions such as death or retirement. Upon exercise of an option, the Common Shares must be paid for in full. Stock options are also granted to attract new executives and to recognize job promotions.

Executive Loan Program. To further encourage long-term share ownership and the retention of shares upon the exercise of stock options, Imasco has an Executive Loan Program. Eligible executives may receive loans to purchase Common Shares in the open market or through the exercise of share options. The total amount of loans that may be outstanding at any time to an executive cannot exceed his or her annual salary. The loans are repayable in five years and are secured by the shares purchased according to a formula. Interest is equal to the dividends received on the pledged shares, net of income tax payable.

Other Compensation

Executive Retiring Allowance Plan. Certain senior executives of the operating companies participate in the Executive Retiring Allowance Plan which was created to provide supplementary retirement income based on the annual performance of their respective companies over their careers. If pre-established performance goals are met during a financial year (these goals are the same as under the Short-Term Incentive Plan for each operating company), a notional allocation of up to 20% of the executive's salary is made to the Plan. Fifty percent of the amount vests immediately, with the balance vesting gradually with age and service, starting at age 55. In 1994, Mr. Brown was the only executive officer of Imasco who participated in this plan; his performance goals were met and a full allocation was made on his behalf.

Other Plans. Imasco's executive officers also participate in pension, perquisite, insurance and other plans or programs which are structured to be competitive with those offered by other major corporations.

Compensation of the Chief Executive Officer

At the beginning of each year, the Chief Executive Officer submits to the HR Committee, for its approval, various objectives for Imasco, its operating companies and himself. These objectives take into account both quantitative and qualitative factors. Objectives of a quantitative nature relate to the achievement of financial results on a short, medium and long-term basis. They include such measures as annual cash flow and total shareholder return, in addition to the various financial measures tracked by the abovementioned incentive plans. Objectives of a qualitative nature relate to specific business and management issues, such as strategic planning, succession planning, corporate governance, and communications with investors and other stakeholders. Progress made in achieving the objectives is followed during the year and is a key consideration in the Committee's evaluation of the Chief Executive Officer's performance and in its determination of his salary. In December 1993, the Committee increased Mr. Crawford's salary by 5% to $725,000, in recognition of Imasco's excellent financial performance and the achievement of his personal objectives.

All the components of total compensation received by the Chief Executive Officer are the same as those received by other executive officers. The HR Committee also uses the same group of comparator companies and seeks to position his salary range at the average for the group and his total compensation range at the top 10%.

For 1994, performance-related payments under Imasco's incentive plans constituted 63.4% of Mr. Crawford's total compensation. Imasco attained its EPS objectives for 1994, resulting in a cash bonus to Mr. Crawford under the

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[6] These shares are purchased through the stock exchanges rather than being issued from treasury, thereby avoiding dilution.

[7] Imasco's practice in recent years has been to repurchase its Common Shares through the stock exchanges both as an investment, and also to cover the exercise of options (thus avoiding any dilution that would otherwise result). Repurchases are made at market price and in accordance with rules governing normal course issuer bids. Shares purchased by Imasco become available for re-issue from treasury. In 1994, 2,486,200 shares were bought at an average cost, including fees, of $37.36 per share.

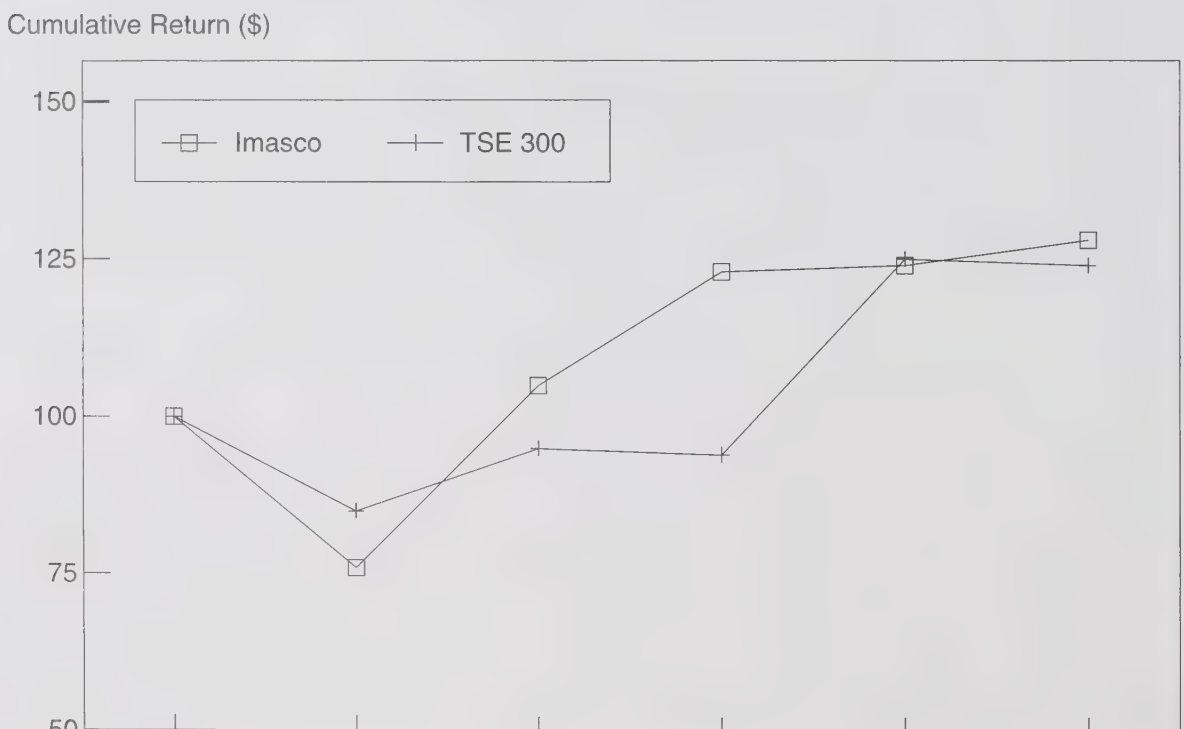
Short-Term Incentive Plan and a contribution on his behalf to the Executive Long-Term Stock Benefit Plan representing, respectively, 62.5% and 37.5% of his year-end salary. In addition, based on Imasco's superior annual EPS growth and ROE performance during the 1992-1994 performance period, he received a cash incentive under the Executive Medium-Term Bonus Plan equal to 75% of his 1991 year-end salary.

Mr. Crawford also received a stock option grant of 24,000 Common Shares in 1994, reflecting his level of responsibility and his contribution to Imasco's overall performance.

Russell E. Palmer (Chair)
Nan-b de Gaspé Beaubien
Angela C. Peters
Ronald D. Southern

Performance Graph

The following graph illustrates the five-year cumulative total shareholder return (assuming reinvestment of dividends) of $100 invested on December 31, 1989 in the Common Shares of Imasco, compared with the return on the TSE 300 Total Return Index.



	1989	1990	1991	1992	1993	1994
Imasco	100	76	105	123	124	128
TSE 300	100	85	95	94	125	124

Summary Compensation

The following table sets forth, for the periods indicated, the compensation of the Chief Executive Officer and the four other most highly compensated executive officers of the Corporation, measured by base salary and bonuses earned in 1994 (collectively the "Named Executives").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation		All Other Compensation
		Salary	Bonus	Other Annual Compensation	Awards	Pay-outs	
					Securities Under Options Granted	LTIP Pay-outs	
		($)	($)[1]	($)[2]	(#)[3]	($)	($)[4]
PURDY CRAWFORD	1994	731,253	500,025	11,783	24,000	487,500[5]	300,015
Chairman and Chief	1993	692,917	453,125	21,485	17,300	236,375	271,875
Executive Officer	1992	653,333	426,553	25,020	16,000	—	258,750
W. EDMUND CLARK	1994[6]	627,000	350,368	—	—	—	13,857
President and Chief	1993	495,000	193,050	—	12,600	—	14,423
Executive Officer of CT Financial	1992	467,308	116,550	—	109,800	—	13,298
BRIAN M. LEVITT	1994	542,558	281,220	7,803	14,000	285,000[5]	168,732
President and Chief	1993[7]	515,979	269,170	11,234	25,000	—	162,225
Operating Officer	1992	476,583	243,100	863	10,000	—	148,200
R. DONALD BROWN	1994	372,040	192,840	1,126	10,000	—	192,840
Chairman, President and	1993[7]	339,091	182,033	1,646	13,000	—	185,400
Chief Executive Officer of	1992	275,548	129,776	—	5,000	—	143,400
Imperial Tobacco Limited							
RAYMOND E. GUYATT	1994	327,795	169,920	4,383	10,000	183,000[5]	101,952
Executive Vice-President and	1993	317,992	162,946	5,478	7,000	89,900	98,010
Chief Financial Officer	1992	306,017	153,141	7,411	7,000	—	95,160

1. Bonus amounts are paid in cash in the year following the fiscal year in which they were earned. For 1994, full bonuses were paid to Messrs. Crawford, Levitt, Brown and Guyatt under the Short-Term Incentive Plan, based upon the achievement of pre-established performance objectives for the year. Mr. Clark received a 1994 bonus under CT Financial's variable cash incentive plan that was based upon the company's above threshold performance relative to objectives set for the year, including with respect to improving expense control, growing market share, providing excellent customer service and improving operating profits excluding the after-tax impact of loan loss provisions.
2. The value of perquisites and other personal benefits is not greater than the lesser of $50,000 and 10% of the total annual salary and bonus of each Named Executive. The amounts in this column relate only to taxable benefits on executive loans.
3. The options relate to Common Shares of Imasco for Messrs. Crawford, Levitt, Brown and Guyatt and to common shares of CT Financial for Mr. Clark.
4. Amounts include contributions to the Executive Long-Term Stock Benefit Plan for Messrs. Crawford, Levitt, Brown and Guyatt and to the Executive Retiring Allowance Plan for Mr. Brown. Full contributions were made in 1994, based upon the attainment of pre-established performance goals for the year. For Mr. Clark, the amount is for contributions to a defined contribution pension plan and term life insurance premiums.
5. These pay-outs were for the second completed cycle (1992-1994) under the Executive Medium-Term Bonus Plan which was established in 1991, and were based upon Imasco's performance of 18.00% average annual earnings per share growth and 14.53% average annual return on common shareholders' equity during the cycle. Only executives at Imasco's corporate centre participated in this plan during this and the previous cycle.
6. Mr. Clark was promoted to the position of President and Chief Executive Officer of CT Financial effective January 1, 1994. His remuneration for 1994 was determined in accordance with his compensation agreement with CT Financial which provides that the company's human resources committee will review Mr. Clark's compensation annually. CT Financial intends to provide Mr. Clark with aggregate compensation at a level comparable to chief executive officers of the six largest Canadian chartered banks. Mr. Clark's compensation is linked to corporate performance pursuant to CT Financial's variable cash incentive plan, under which his award may range from nil to 100% of his salary depending on the company's results for the year and other qualifiers, as well as pursuant to its long-term incentive plan, under which Mr. Clark was awarded seven and a half times his salary in book value units as an initial grant in 1994 and will be awarded two and a half times his salary annually in book value units in subsequent years (subject to the plan terms and at the discretion of the board of CT Financial), the pay-out of which will depend on the increase in the company's book value and the excess of its average return on equity over the average long-term Canada bond yield, during a six-year period. Mr. Clark also participates in all executive benefit plans and perquisites available to senior executives of CT Financial and is provided with a term life insurance policy equal to four times his salary.
7. Amounts reflect promotions.

Long-Term Incentive Plan ("LTIP") Awards

The following table sets forth information concerning the award of units in 1994 to Named Executives under Imasco's Executive Medium-Term Bonus Plan or CT Financial's long-term incentive plan, as the case may be.

Long-Term Incentive Plans - Awards In Most Recently Completed Financial Year

Name	Securities, Units or Other Rights (#)	Performance or Other Period Until Maturation or Pay-out	Estimated Future Pay-outs Under Non-Securities Price-Based Plans		
			Threshold ($)	Target ($)	Maximum ($)
PURDY CRAWFORD[1]	181,250	1994-1996	—	543,750	543,750
W. EDMUND CLARK[2]	302,023	1994-1999	—	806,401	—
BRIAN M. LEVITT[1]	108,150	1994-1996	—	324,450	324,450
R. DONALD BROWN[3]	—	—	—	—	—
RAYMOND E. GUYATT[1]	65,340	1994-1996	—	196,020	196,020

1. Messrs. Crawford, Levitt and Guyatt participate in Imasco's Executive Medium-Term Bonus Plan, a description of which is provided in the "Human Resources Committee Report on Executive Compensation".

   Under this plan, at the beginning of each three-year performance period, the HR Committee approves a performance matrix that lists in tabular form the pay-out factors to be used, depending on Imasco's average annual earnings per share growth and average annual return on common shareholders' equity during the period. There is therefore an array of possible performance results, rather than a specified performance target, and possible pay-outs will vary for each executive from a low of 0 to a high equal to the amount stated opposite his name in the last column. For disclosure purposes, the target pay-out is stated to be equivalent to the maximum pay-out.

2. Mr. Clark is a participant in CT Financial's long-term incentive plan which became effective on April 1, 1994 and is linked directly to the earnings performance of the company. Grants to executives are expressed as a percentage of salary and are converted to a number of book value units, using a pre-determined range of the percentage of salary based on the executive's job category. The grants are issued at the book value of common shares of the company at the most recently completed fiscal year end. The initial grant in 1994 was significantly larger than regular grants will be in subsequent years, to recognize the removal of incentive compensation from pensionable earnings and to ensure that executives will have a meaningful number of units outstanding during the early years of the plan. The grants have a term of six years and vest after three years. Pay-out is determined as follows: 25% of the book value gain of the units for every one percent that the average return on equity ("ROE") over the six year performance period exceeds the average long-term Canada bond yield over the same period, with a maximum pay-out of 150%.

   Since pay-outs are dependent upon the increase in the company's book value, on ROE and on average long-term Canada bond yield for 1994 through 1999, they are not presently ascertainable. The target pay-out shown is based on the assumption that book value will increase at the same rate over the performance period as that experienced in 1994 over 1993, and that the ROE excess over long-term Canada bond yield for 1994 will continue throughout the performance period.

3. Mr. Brown did not participate in a long-term incentive plan.

Options

The following table sets forth information concerning the grant of options in 1994 to Named Executives.

Option Grants During The Most Recently Completed Financial Year

Name	Securities Under Options Granted (#)	% of Total Options Granted to Employees in Financial Year	Exercise Price ($/ Security)	Market Value of Securities Underlying Options on the Date of Grant ($/ Security)	Expiration Date
PURDY CRAWFORD[1]	24,000	6.3	36.00	36.00	May 2, 2004
W. EDMUND CLARK[2]	—	—	—	—	—
BRIAN M. LEVITT[1]	14,000	3.7	36.00	36.00	May 2, 2004
R. DONALD BROWN[1]	10,000	2.6	36.00	36.00	May 2, 2004
RAYMOND E. GUYATT[1]	10,000	2.6	36.00	36.00	May 2, 2004

1. Messrs. Crawford, Levitt, Brown and Guyatt were granted options on Common Shares of Imasco pursuant to the Corporation's Stock Option Plan. All options become exercisable two years following the date of grant. A description of the plan is provided in the "Human Resources Committee Report on Executive Compensation".
2. CT Financial does not intend to grant any further options under its stock option plan to employees eligible to participate in the long-term incentive plan introduced in 1994.

The following table sets forth information concerning the exercise of options by Named Executives in 1994 and financial year-end option values.

Aggregated Option Exercises During The Most Recently Completed Financial Year and Financial Year-End Option Values

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options at FY-End (#) Exercisable / Unexercisable	Value of Unexercised in-the-Money Options at FY-End ($) Exercisable / Unexercisable
PURDY CRAWFORD	—	—	93,200/41,300	699,688/107,300
W. EDMUND CLARK[2]	122,400	244,800	—	—
BRIAN M. LEVITT	—	—	50,000/39,000	520,000/77,500
R. DONALD BROWN	—	—	19,260/23,000	90,805/50,500
RAYMOND E. GUYATT	—	—	33,610/17,000	240,418/44,500

1. The value of these options at year-end is equal to the excess of the market value of the Common Shares of Imasco covered by the options over the exercise price of the options. The closing price of these shares on The Toronto Stock Exchange on December 30, 1994 was $39.75.
2. The options of Mr. Clark relate to common shares of CT Financial; these options were sold for cancellation rather than exercised. CT Financial made an offer to all employees eligible to participate in the new long-term incentive plan to purchase all of their outstanding options at a price of $2 per share. All such employees, including Mr. Clark, accepted the offer.

Pension Plans

The following table sets forth the standard annual pension benefits payable at 65 years of age for retired executive officers of Imasco, other than Mr. Clark.

Pension Plan Table of Imasco

Remuneration (Salary)	Years of Credited Service				
($)	15	20	25	30	35
125,000	$ 37,500	$ 50,000	$ 62,500	$ 75,000	$ 87,500
150,000	$ 45,000	$ 60,000	$ 75,000	$ 90,000	$105,000
175,000	$ 52,500	$ 70,000	$ 87,500	$105,000	$122,500
200,000	$ 60,000	$ 80,000	$100,000	$120,000	$140,000
250,000	$ 75,000	$100,000	$125,000	$150,000	$175,000
300,000	$ 90,000	$120,000	$150,000	$180,000	$210,000
400,000	$120,000	$160,000	$200,000	$240,000	$280,000
500,000	$150,000	$200,000	$250,000	$300,000	$350,000
600,000	$180,000	$240,000	$300,000	$360,000	$420,000
700,000	$210,000	$280,000	$350,000	$420,000	$490,000
800,000	$240,000	$320,000	$400,000	$480,000	$560,000
900,000	$270,000	$360,000	$450,000	$540,000	$630,000

Imasco's executive officers, other than Mr. Clark, are entitled to pension benefits under a registered defined benefit plan and a non-registered supplementary pension plan. The officers accrue for each year of credited service a benefit equal to 2% times the annual average of the best consecutive three years' salary in the last ten years prior to retirement. No adjustment is made for Canada or Québec Pension Plans. The maximum annual benefit is equal to 70% of the executive's salary during the last twelve months of employment. Benefits are in the form of a life annuity with an automatic 60% survivor benefit. Benefits are normally reduced if retirement occurs before age 60, although full benefits can be payable from age 57 based upon certain combinations of age and years of credited service.

The respective years of credited service as of December 31, 1994 and at normal retirement age for the following Named Executives are: Mr. Crawford, 23.5 and 25.4 years; Mr. Levitt, 11 and 30.5 years; Mr. Brown, 30.7 and 41.2 years; and Mr. Guyatt, 21.6 and 35.6 years. The years of credited service for Messrs. Crawford and Levitt exceed their years of actual service pursuant to arrangements entered into at the time of employment.

Mr. Clark is a member of the registered defined contribution pension plan of CT Financial. His retiring allowance agreement provides for a supplemental benefit, calculated on a defined benefit basis according to a schedule which specifies an escalating percentage benefit based on years of company service and the annual average of his highest consecutive 36 months' salary. Benefits are in the form of a life annuity with a 60% surviving spouse benefit. For the purposes of the agreement, his company service at December 31, 1994 is 3.1 years and his accrued retirement income payable at age 55, based on his 1994 salary, is $37,600. At ages 60 and 65, Mr. Clark will have 16 and 21 years of company service, respectively, and he will be entitled to an annual income of 75% and 86%, respectively, of the annual average of his highest consecutive 36 months' salary. Based on his 1994 salary continuing unchanged until retirement, the benefit payable at ages 60 and 65 will be $470,300 and $539,200 respectively. The following table sets out the total benefits payable to Mr. Clark under his retiring allowance agreement.

Pension Plan Table for Mr. Clark

Remuneration (Salary)	Years of Credited Service	
($)	15	20
600,000	$426,000	$504,000
650,000	$461,500	$546,000
700,000	$497,000	$588,000
750,000	$532,500	$630,000

Termination of Employment and Retirement Arrangements and Employment Contracts

Since September 1989, Imasco has established special compensation arrangements for all of its executive officers, other than Mr. Clark. These arrangements provide for severance payments to be received by them, in certain circumstances, in the event of resignation or termination of employment (except for cause or by reason of retirement, death or disability) within 24 months following a fundamental change in the ownership or direction of the Corporation. An executive officer would be entitled to receive, in such circumstances, his or her total compensation (including incentive awards and various perquisites, as well as participation in certain medical, insurance, pension and similar plans) for a limited period not exceeding 36 months, as well as reasonable fees and related expenses incurred in connection with employment, financial counselling, legal and accounting services. Executive officers who are subject to tax in the United States may also receive an adjustment to compensate for additional U.S. taxes that may be payable on certain severance payments. Rights granted pursuant to these arrangements are in lieu of any rights which an executive officer would have at common law.

With the exception of Mr. Clark, in 1994, all executive officers of Imasco and operating company leaders participated in the Executive Long-Term Stock Benefit Plan and all operating company leaders participated in the Executive Retiring Allowance Plan. These plans provide for the payment of retirement allowances and are described in the "Human Resources Committee Report on Executive Compensation".

A compensation agreement exists between CT Financial and Mr. Clark which provides that the company's human resources committee will review Mr. Clark's compensation annually. The agreement also provides that he will be entitled to two years' salary and benefits should his employment be terminated without cause. Mr. Clark's compensation package is outlined in note 6 to the Summary Compensation Table and his rights under a retiring allowance agreement are summarized under the heading "Pension Plans".

Compensation of Directors

Only directors who are not full-time officers or employees of Imasco are entitled to directors' remuneration. The annual retainer fees per director are $18,000 plus, in the case of Outside Directors, Common Shares of Imasco allocated under the Directors' Stock Plan described below. Annual retainer fees for committee work are: $7,500 to members of the Executive Committee; $2,000 to members of the HR Committee and members of the Audit Committee; $1,000 to members of the Nominating and Corporate Governance Committee; and $6,000 to the Chairs of the Audit, HR, and Nominating and Corporate Governance Committees. Attendance fees are $1,000 for each meeting of the Board and its committees. The per diem fee for special services is $1,000 and a fee of $250 is paid for consultations with the Chief Executive Officer and for participation in the passing of resolutions in lieu of a meeting. Directors are also reimbursed for travel and other out-of-pocket expenses incurred in attending Board or committee meetings, and for any reasonable expenses incurred while on Imasco business.

The Corporation established a Directors' Stock Plan as of January 1, 1992, for members of its Board of Directors who are not officers or employees of Imasco or its affiliates (the "Outside Directors"). The plan was created in order to promote Outside Directors' identification with shareholder interests and is administered by the Nominating and Corporate Governance Committee. Upon the recommendation of this committee, the Board of Directors may approve an annual allocation of Common Shares to each Outside Director. The Common Shares so allocated are purchased through the stock exchanges (thereby avoiding dilution) in the name of the Outside Directors, with all costs and expenses borne by the Corporation. As part of their retainer for 1994, Imasco caused 250 Common Shares to be purchased on behalf of each Outside Director, at a cost of $40.125 per share.

Indebtedness under Securities Purchase Programs

The aggregate amount of indebtedness to the Corporation and its subsidiaries incurred in connection with the purchase of securities of the Corporation or its subsidiaries, by their present and former officers, directors and employees, was approximately $1,672,000 as of March 1, 1995.

The following table sets forth information concerning such indebtedness incurred by individuals who are, or at any time during 1994 were, directors, executive officers and senior officers of Imasco, and by associates of such directors and officers.

Table of Indebtedness of Directors, Executive Officers And Senior Officers Under Securities Purchase Programs

Name and Principal Position	Involvement of Issuer or Subsidiary	Largest Amount Outstanding During 1994 ($)	Amount Outstanding as at March 1, 1995 ($)	Financially Assisted Securities Purchases During 1994 (#)	Security for Indebtedness (#)
PURDY CRAWFORD Chairman and Chief Executive Officer	Lender[1] Lender[2]	622,645 29,000	585,645 29,000	3,000 0	22,083 1,500
BRIAN M. LEVITT President and Chief Operating Officer	Lender[1] Lender[2]	422,126 27,500	182,126 27,500	5,000 0	5,000 1,500
R. DONALD BROWN Chairman, President and Chief Executive Officer, Imperial Tobacco Limited	Lender[1]	39,551	35,595	0	1,000
RAYMOND E. GUYATT Executive Vice-President and Chief Financial Officer	Lender[1] Lender[2]	232,711 25,875	225,291 25,875	3,000 0	8,000 1,500
DAVID R. BLOOM Chairman and Chief Executive Officer, Shoppers Drug Mart	Lender[2]	27,500	27,500	0	1,500
ROY R. SCHWARTZ Senior Vice-President	Lender[1]	189,270	178,755	0	6,000
HUGH W. McADAMS Vice-President and Treasurer	Lender[1]	173,626	166,331	1,300	6,300
DENIS FAUCHER Vice-President and Controller	Lender[1]	74,601	74,601	2,000	2,000
DENISE PERRAULT Vice-President, Human Resources	Lender[1]	35,801	35,801	1,000	1,000

1. These loans were made by Imasco under the Executive Loan Program which is described in the "Human Resources Committee Report on Executive Compensation". Common Shares of Imasco are pledged as security, according to a formula.

2. These loans were made by Imasco to directors of Imasco who act as its nominees on the board of directors of CT Financial. CT Financial requires a director to hold qualifying shares. The loans are secured by the common shares of CT Financial purchased with such loans and the interest is equal to the dividends declared on such shares, net of the income tax payable on the dividends. When the borrower ceases to be a director of CT Financial, the loans must be repaid and either the borrower or Imasco may require Imasco to accept the qualifying shares as full repayment of the principal amount of the loan.

Amendments to the Articles of the Corporation

On February 2, 1995, the Board of Directors passed resolutions authorizing proposed amendments to the Articles of the Corporation: (a) to subdivide its authorized and issued Common Shares on a two-for-one basis ; and (b) to allow the directors to appoint directors between shareholders' meetings in accordance with the laws governing the Corporation.

Shareholders will be asked to adopt and approve Special Resolutions I and II regarding these proposed amendments to the Articles. The full text of the Special Resolutions is reproduced as Exhibits A and B to this Management Proxy Circular.

The Special Resolutions must be passed with or without variation by not less than two-thirds of the votes cast by the holders of Common Shares present or represented at the Meeting who vote in respect thereof.

The proposed amendments to the Articles shall become effective upon the issuance of a Certificate of Amendment by the Director under the Canada Business Corporations Act ("CBCA"), although the subdivision of the issued Common Shares is only expected to take effect at the close of business on May 15 (the "Record Date").

Subdivision of Authorized and Issued Common Shares

The authorized share capital of Imasco consists of 120,500,000 Common Shares and an unlimited number of First and Second Preference Shares, issuable in series, of which there are presently issued 116,704, 223 Common Shares and 270 Perpetual First Preference Shares, Series D. The Board of Directors has concluded that it is in the best interests of Imasco and its shareholders to subdivide its authorized and issued Common Shares on a two-for-one basis. The increased number of outstanding Common Shares that would be available for purchase and sale at lower prices following the stock split should enhance the marketability of such shares and make the shares accessible to a wider range of investors.

In the event Special Resolution I is approved and Articles of Amendment are filed, the number of authorized Common Shares will be increased from 120,500,000 to 241,000,000 shares, and assuming there is no change in the number of issued shares prior to the Record Date, there will be 233,408,446 Common Shares outstanding.

After the stock split, certificates representing Common Shares shall continue to represent the same number of Common Shares. However, each registered holder of Common Shares at the close of business on the Record Date will be entitled to receive a further certificate representing one additional Common Share for every Common Share held on the Record Date; as a result, each holder will hold two Common Shares for every Common Share held on the Record Date. **Presently outstanding Common Share certificates should be retained by the holders thereof and should not be sent to the Corporation or to the Transfer Agent.**

The subdivision will not change any shareholder's proportionate share in the equity of Imasco or affect the aggregate stated capital of the Common Shares.

Imasco will provide for the listing on the Montreal, Toronto and Vancouver stock exchanges of the Common Shares to be outstanding as a result of the subdivision. In accordance with the rules of the exchanges, it is expected that trading in the Common Shares on a subdivided basis will commence on or about May 9, 1995.

After the subdivision, the indicated annual dividend rate for the Common Shares will be $0.96 per share.

Imasco has been advised by its counsel that under the current administrative policy of Revenue Canada, Customs, Excise and Taxation, no disposition or acquisition will be considered to have occurred as a result of the subdivision of Common Shares. Consequently, the subdivision will not result in the realization of a gain or loss by a shareholder under the Income Tax Act (Canada). In general, the aggregate adjusted cost base to a shareholder of such shareholder's shares immediately after the subdivision will be equal to the aggregate adjusted cost base to such shareholder of such shareholder's shares immediately before the subdivision.

Shareholders are advised to consult their own tax advisors for guidance regarding their personal income tax situation.

Right to Appoint Directors Between Shareholders' Meetings

Prior to technical amendments made to the CBCA in June 1994, the CBCA set forth a procedure for filling vacancies on a board of directors but did not specify any procedure by which a corporation whose articles provided for a minimum and maximum number of directors could add directors between shareholders' meetings. However, as a result of the abovementioned amendments, the CBCA now expressly states that, if the articles of a corporation so provide, its directors may appoint new directors between shareholders' meetings. Under the CBCA, directors appointed in this manner shall hold office for a term expiring not later than the close of the next annual meeting of shareholders and the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders.

The Board of Directors believes that it is in the best interests of Imasco to amend its articles to allow directors to appoint directors as now permitted by the CBCA. Such a right will provide the Imasco board with the flexibility to appoint additional directors between shareholders' meetings in a timely manner and without incurring the expense of a shareholders' meeting.

Directors' and officers' insurance

Imasco has purchased, at its expense, group liability insurance in the amount of $25,000,000, with a deductible to the Corporation of $500,000, for the protection of directors and officers of Imasco and its subsidiaries, against liability incurred by them in such capacity. The premium for 1994 was $319,000, of which $143,550 was for directors' coverage and $175,450 for officers' coverage.

Appointment of auditors

Unless such authority is withheld, the proxies hereby solicited will be voted to reappoint Deloitte & Touche as auditors of the Corporation, to hold office until the next annual meeting of shareholders.

Other matters

Management of the Corporation knows of no amendment to the matters referred to in the Notice of Meeting nor of any other business to be brought before the Meeting other than the matters referred to in such Notice. However, if any amendment to any matters referred to in the Notice of Meeting or any other business should properly be brought before the Meeting, the enclosed Form of Proxy confers discretionary authority upon the persons named therein to vote thereon in accordance with their best judgment.

Availability of documents

Copies of Imasco's latest annual information form, audited financial statements and management proxy circular filed with various provincial securities commissions may be obtained, without charge, on request from the Secretary of the Corporation.

Approval

The Board of Directors of Imasco has approved the contents of this Management Proxy Circular and its sending to shareholders.

Rodrick K. MacKinnon

Secretary
March 1, 1995

EXHIBIT A

SPECIAL RESOLUTION I

"Resolved as Special Resolution I that:

1. Article 3 of the articles of the Corporation be amended:

   (a) to subdivide the authorized Common Shares on a two-for-one basis, thereby increasing the number of authorized shares from 120,500,000 to 241,000,000 shares; and

   (b) to subdivide on a two-for-one basis the Common Shares outstanding as at the close of business on May 15, 1995.

2. Notwithstanding the provisions hereof, the directors of the Corporation may revoke this Special Resolution I at any time prior to the issuance under the Canada Business Corporations Act ("CBCA") of a Certificate of Amendment giving effect hereto, without further approval of the shareholders of the Corporation.

3. Any director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to sign and deliver all such documents and to do all such other acts as such director or officer may consider necessary or desirable to give effect to this Special Resolution I (including, without limitation, the delivery of articles of amendment in the prescribed form to the Director appointed under the CBCA), the execution of any such document or the doing of any such act being conclusive evidence of such determination."

EXHIBIT B

SPECIAL RESOLUTION II

"Resolved as Special Resolution II that:

1. Article 7 of the articles of the Corporation be amended by adding thereto the right of the directors to appoint from time to time one or more directors in accordance with the laws governing the Corporation.

2. Notwithstanding the provisions hereof, the directors of the Corporation may revoke this Special Resolution II at any time prior to the issuance under the Canada Business Corporations Act ("CBCA") of a Certificate of Amendment giving effect hereto, without further approval of the shareholders of the Corporation.

3. Any director or officer of the Corporation be and is hereby authorized and directed, for and on behalf of the Corporation, to sign and deliver all such documents and to do all such other acts as such director or officer may consider necessary or desirable to give effect to this Special Resolution II (including, without limitation, the delivery of articles of amendment in the prescribed form to the Director appointed under the CBCA), the execution of any such document or the doing of any such act being conclusive evidence of such determination."

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